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THE CONFERENCE BOARD

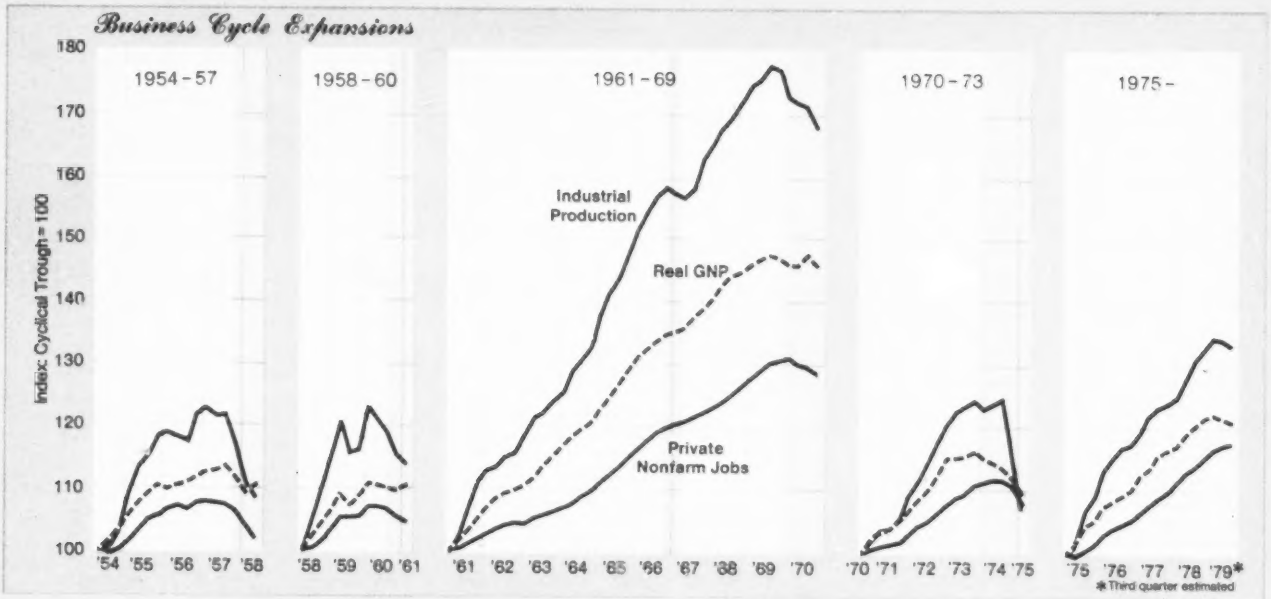
The Cyclical Setting

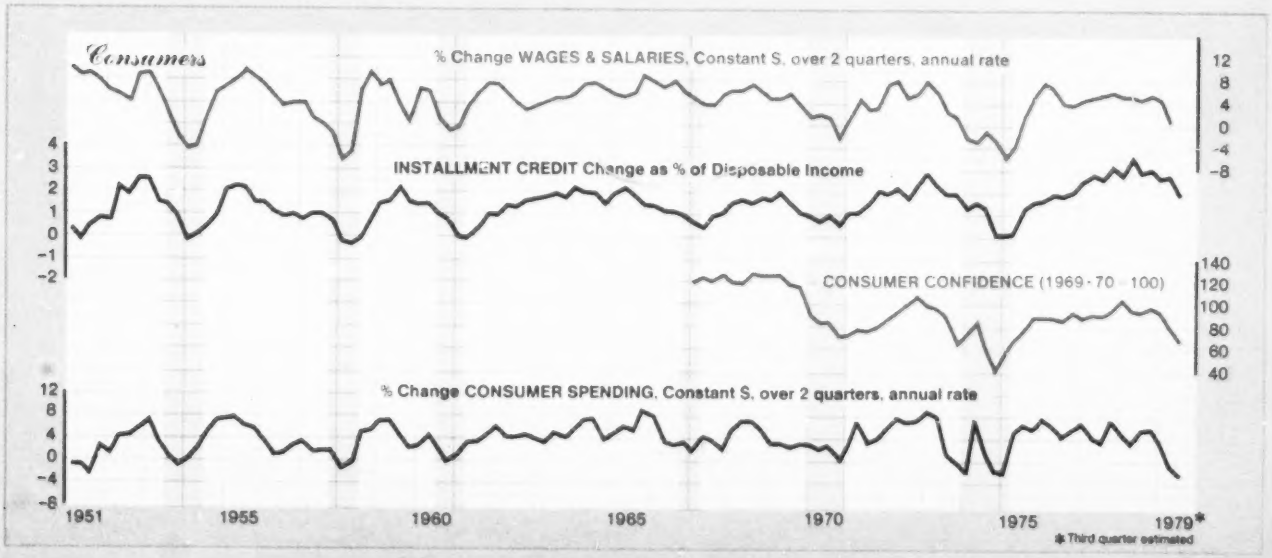
Economic Road Maps

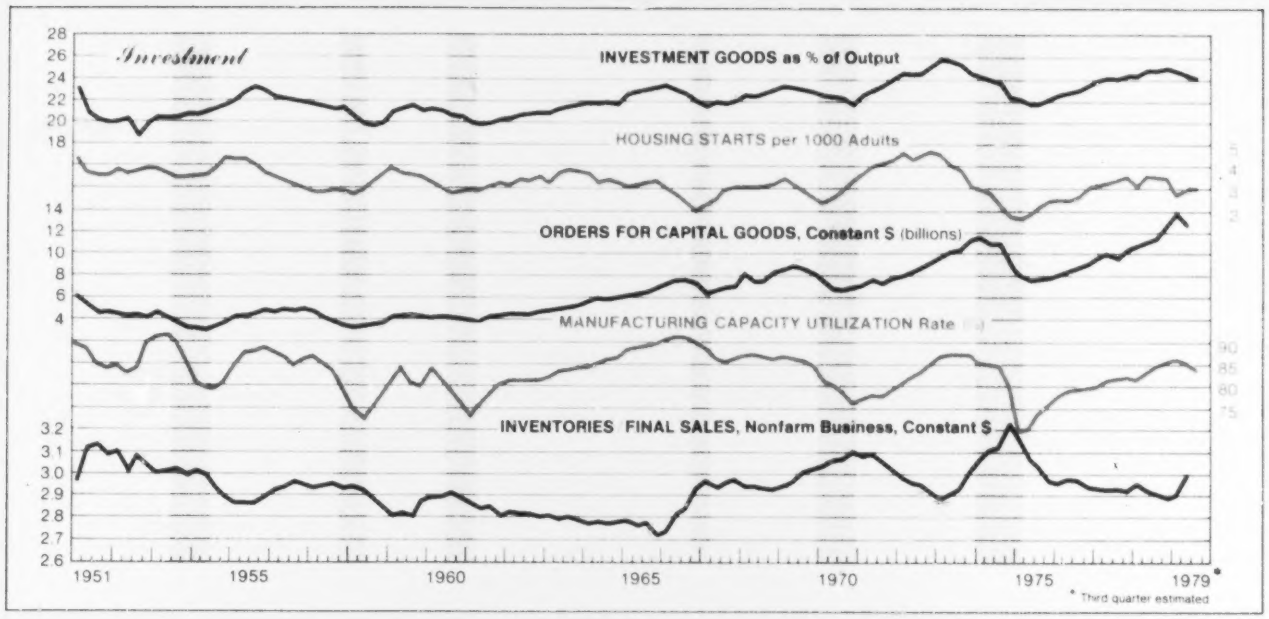
No. 1864

October, 1979

The recession phase of the business cycle is marked by widespread, cumulating cuts in production, sales, and jobs. Since World War II, six U.S. recessions have been dated by the National Bureau of Economic Research, the private organization that is the accepted arbiter of cyclical timing. There was also a setback in 1966-67 too mild to qualify for NBER designation but generally recognized as a mini-recession. The consensus is that another recession is starting this year, although there is disagreement over whether the true cyclical recession has yet begun. The timing is clouded by last spring's disruptions caused by factors such as gas shortages and truck strikes. The charts immediately below show the expansions leading to the last four NBER-designated recessions plus the 1975 expansion. The other charts plot selected economic variables that show some identifiable cyclical patterns.







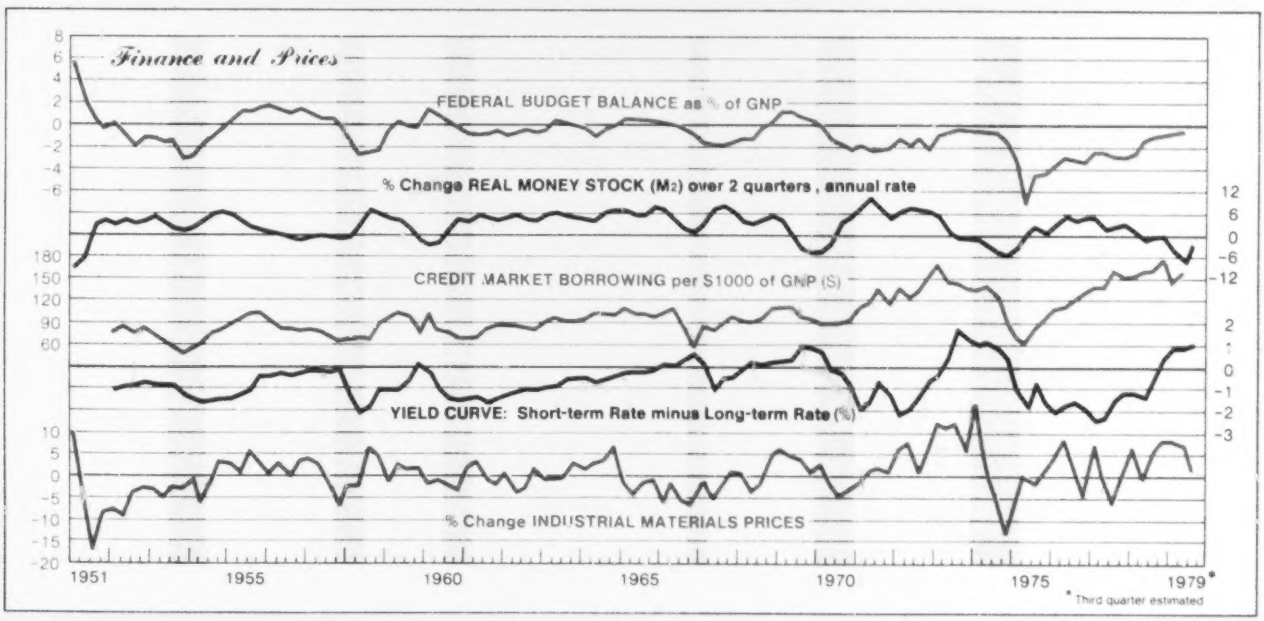
Every economic cycle has some special characteristics of its own. But while history never repeats itself exactly, there are some fairly consistent patterns. The growth rates of real consumer income and spending generally show clear weakening before a cyclical slump. Consumer confidence falls as income growth slows, and debt usage eases late in an expansion after the typical credit boom.

Investment goods become more important in national output as an economic expansion progresses. But this trend can't persist indefinitely because stocks become adequate while the associated debt becomes burdensome. Inventories are another common feature of the business cycle. They usually get out of line late in the expansion when prices are rising rapidly and capacity is pressed.

Among financial indicators, frequent precursors of recession are a relatively shrinking federal deficit, a slowing rate of real money growth, and a rise of short-term interest rates above long-term rates. On the price front, materials prices in particular escalate late in cyclical expansions.

Lora S. Collins

Sources: U.S. Departments of Commerce and Labor; Federal Reserve Board; The Conference Board.



ECONOMIC ROAD MAPS

Eva Culen, Editor Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department – Lora S. Collins, Director
Prices for Quantities of this chart will be supplied on request to Information Service.

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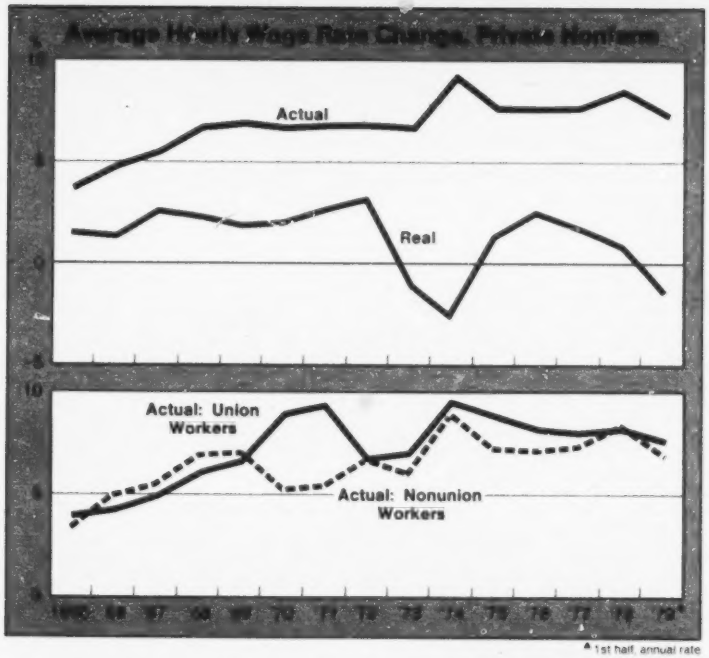
Trends in Wages

Economic Road Maps
No. 1865 October, 1979

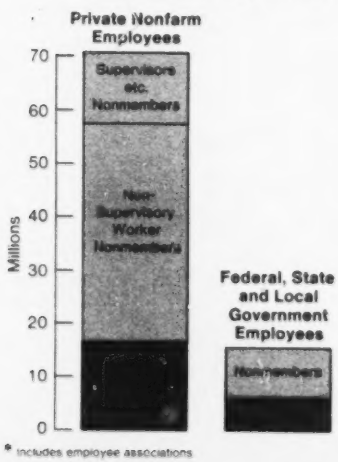
The government's wage guidelines have been in effect for a year. The first-year intent was to hold the average increase in compensation to 7 percent. The average increase in the wage rate change of private rank-and-file workers in the first half of 1979 was not much above 7% at an annual rate. For all private workers, the average rise in hourly compensation—wages, salaries, fringes—was just over 9% at an annual rate. Both increases were slower than the respective 1978 advances. The headlines have reported some costly union settlements this year, but such settlements are not the rule and involve a relatively small share of the work force. However, it does appear that union wages have slowed less this year than nonunion wages.



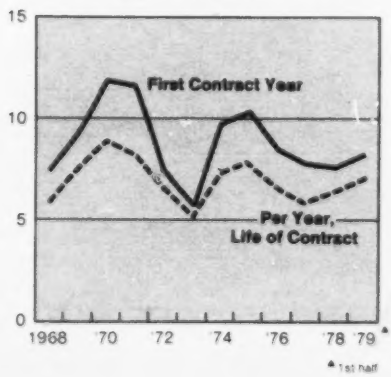
The chart at left shows percent changes in the average wage rate of private, nonfarm rank-and-file workers. In money terms, the rise has been a fairly steady 7½-8% annually in recent years. In real terms, of course, the picture is different and includes an appreciable decline this year. For major union contracts, covering altogether about 10 million workers, the Bureau of Labor Statistics calculates the average actual wage rate change every quarter, taking account of increases under new contracts, deferred increases under existing contracts, and cost-of-living escalators. This change amounted to 8.2% in 1978 and 7.5% (annual rate) in the first half of 1979. The nonunion wage trend on the chart has been imputed from these data, plus the overall private wage change.

Nonunion wage gains are typically slower than union gains when the economy is weak

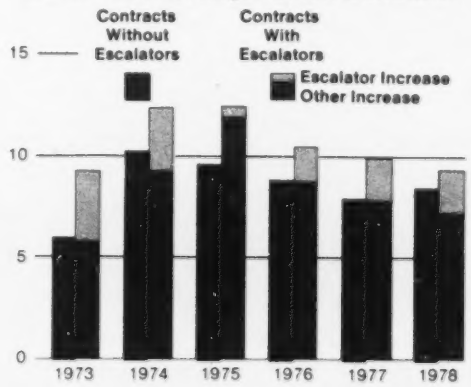
Union Membership, 1978



Major Union Settlements: Negotiated Percent Change in Wage Rates, Excluding Possible Living-Cost Escalators

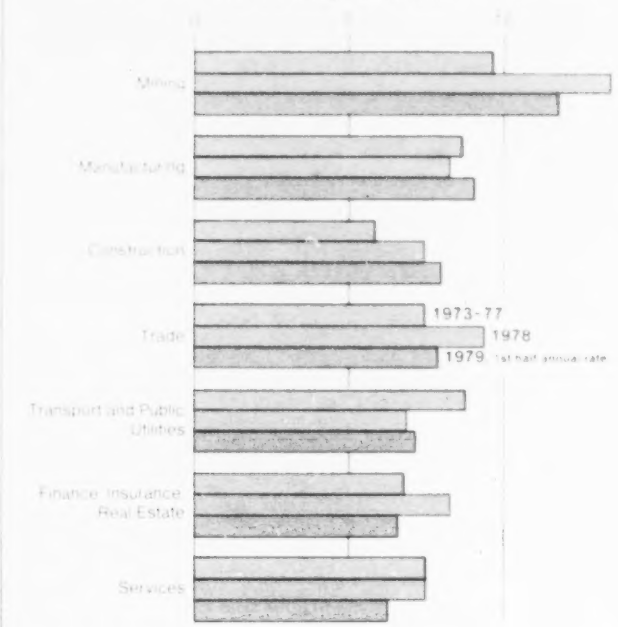


The Role of Living-Cost Escalators: Actual Percent Change in Wage Rates in First Year of Major Union Contracts



Average Hourly Wage Rates in Major Industries

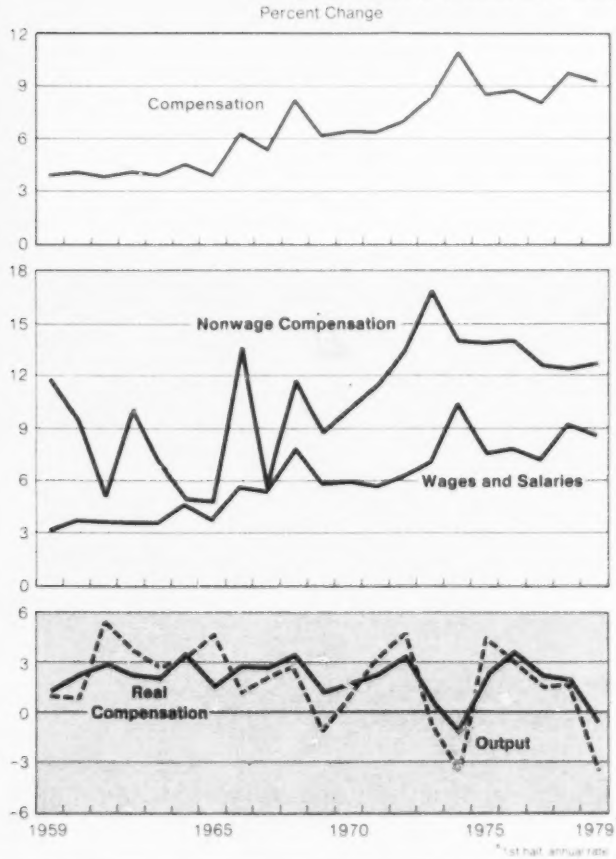
Percent Change, Annual Rate

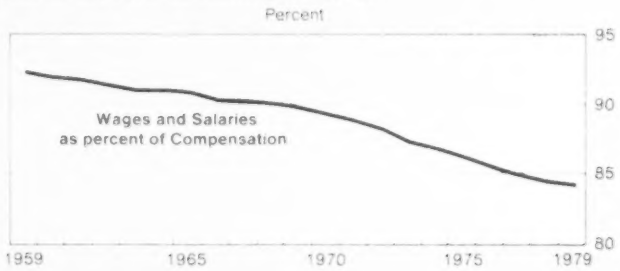


but roughly equal when activity is strong. In early 1979, employment conditions were still very strong but nonunion wage gains slowed more than union gains, suggesting that the guidelines affected nonunion workers more than union members. The union workers' main advantage in 1979 has probably been the living-cost escalator. About 6 million workers in major union contracts have escalators, but they are otherwise rare. As the chart on page 1 shows, escalators are important for those who have them. In the first year of contracts with escalators signed in 1978, wage rates rose 9.2% on average, with the negotiated wage change accounting for 7.1% and the escalators for 2.1 percent.

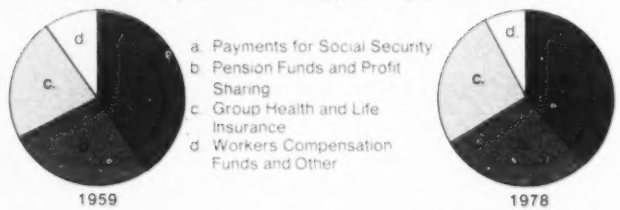
Total compensation is more than just wages and salaries. Some 15% of the total consists of employer payments for health and life insurance, pension funds, and so on, plus employers' Social Security taxes. The nonwage share has been rising steadily, but the makeup of nonwage compensation has been remarkably stable over time (chart below). That is, while Social Security taxes have risen rapidly, other nonwage compensation

Compensation per hour and Output per hour, Private Nonfarm Sector





Makeup of Non-Wage Compensation


a. Payments for Social Security
b. Pension Funds and Profit Sharing
c. Group Health and Life Insurance
d. Workers Compensation Funds and Other
1959
1978

has gone up just as fast. It is often said that real income is weak because "inflation erodes income." But a more fundamental relationship, shown in the lower left chart, is that real hourly income is weak because of weakness in real hourly output. In this light, inflation equilibrates: It eats up enough of money income to make the growth of real income about match that of real output.

Lora S. Collins

Sources: U.S. Departments of Commerce and Labor; The Conference Board.

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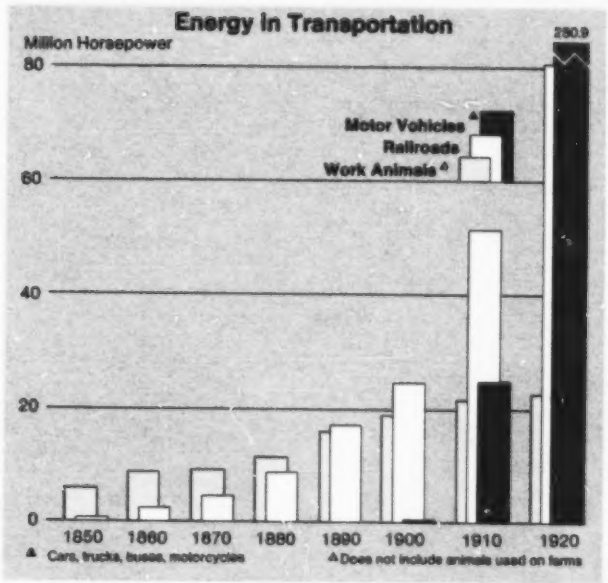
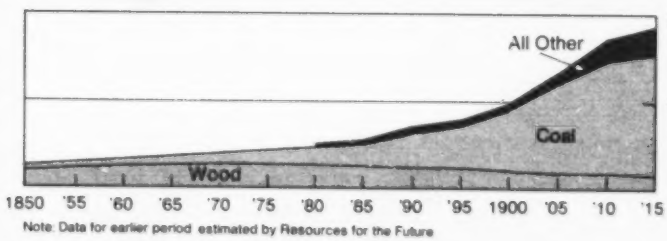
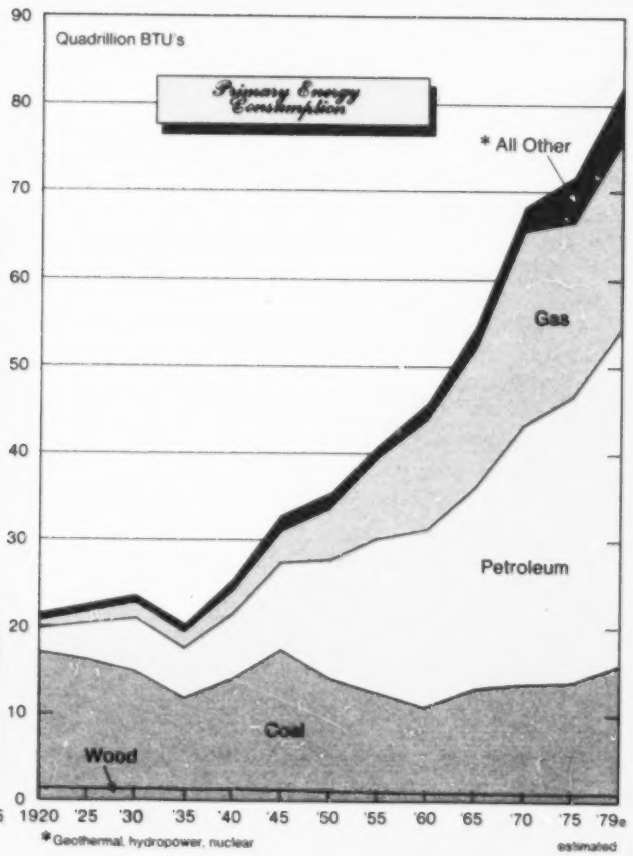
Long Term U.S. Energy Trends

Economic Road Maps
Nos. 1866-1867
November, 1979

Burning fossil fuels, splitting the atom, and exploiting the force of the sun or falling water, all provide the energy that is an essential factor—along with labor and capital—in producing the very high living standard of this country. Helped by improving efficiency in their use, domestic supplies of fossil fuels were adequate for most of our energy needs in the past. But availability, efficient use, and the price of energy have become major and growing concerns, and raise questions about the pace of future improvements in our standard of living.

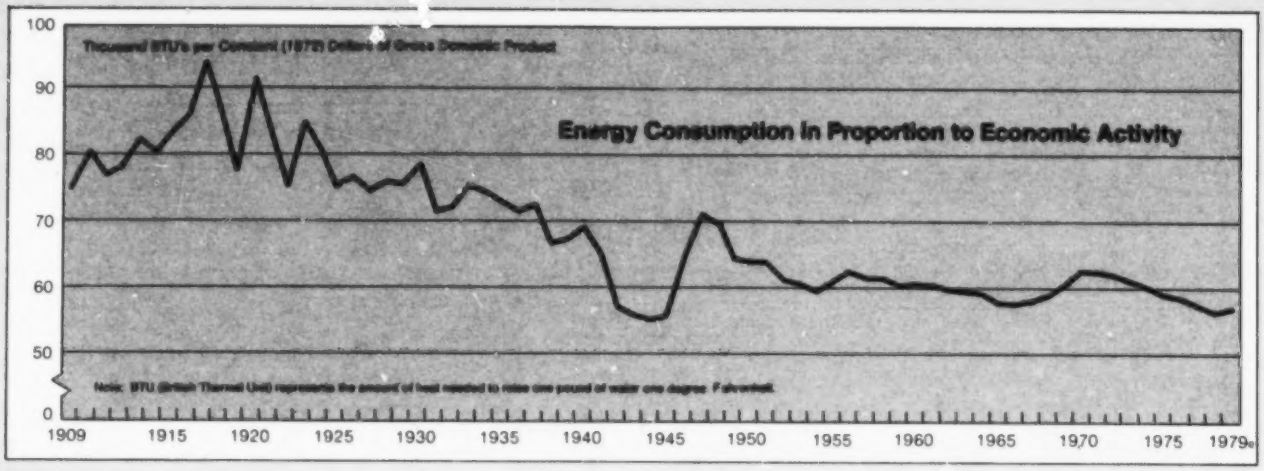



All Other
Coal
Wood
1850 '55 '60 '65 '70 '75 '80 '85 '90 '95 1900 '05 '10 '15
Note: Data for earlier period estimated by Resources for the Future



A century ago, people still depended heavily on wood to heat their homes and cook their food. Wood was also used to power the early railroad engines, as well as in some small-scale processes such as blacksmithing. As late as 1880, wood accounted for more than half of all energy consumed. By that time, however, coal use was expanding rapidly—especially as a power source in the activities that were beginning to develop with the dawning of the modern industrial age. Coal was burned to transform water into steam. The steam, in turn, drove the belts and pulleys that powered both the traditional small textile and shoe factories as well as those turning out such modern products as tractors and railroad cars.

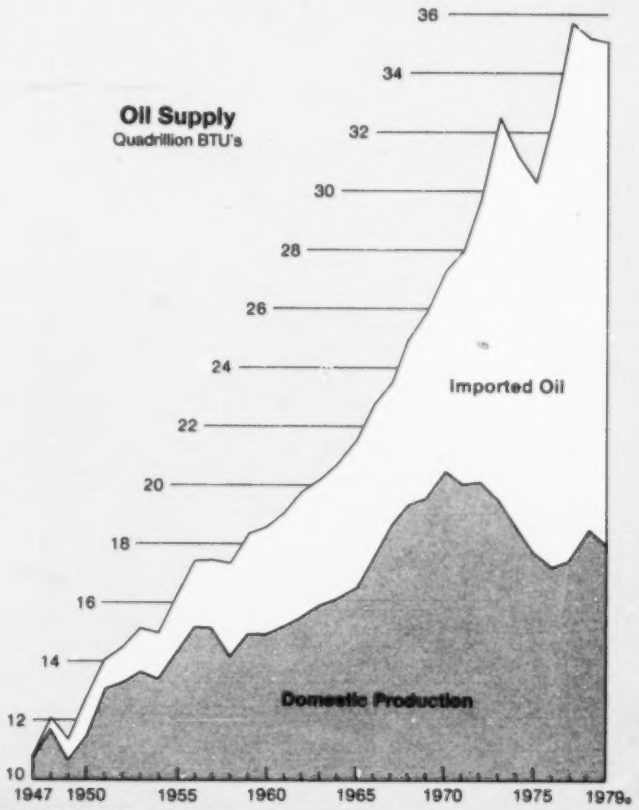
By the turn of the century, steam was being used to generate electricity. The electric motor replaced the cumbersome pulley-and-belt network in the factories. This paved the way for streamlining the production process into modern assembly lines.

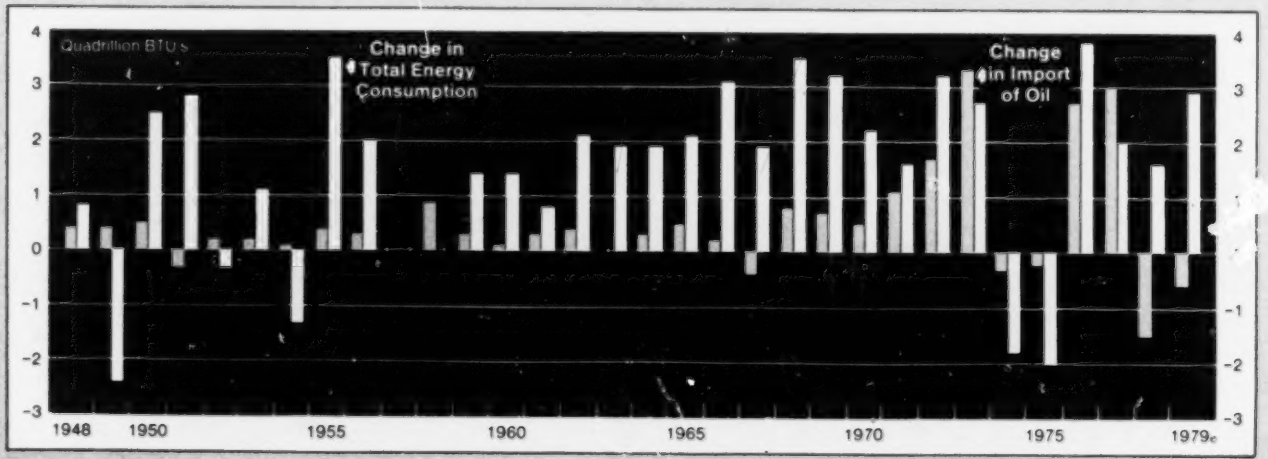


American energy consumption, principally of coal, rose very rapidly throughout the early industrial period. In fact, until about the end of World War I, energy consumption was increasing at a faster pace than the growth in total economic activity. The amount of energy used per unit of real national product increased by 25% from 1909 to 1917. That somewhat overstates the case, in view of the fact that as railroads, and later motor vehicles, replaced horses, mules and oxen, there was a shift from animal power to wood, coal and, later, oil power. Still, the point remains that as these energy supplies became widely available, their prices declined, and use escalated.

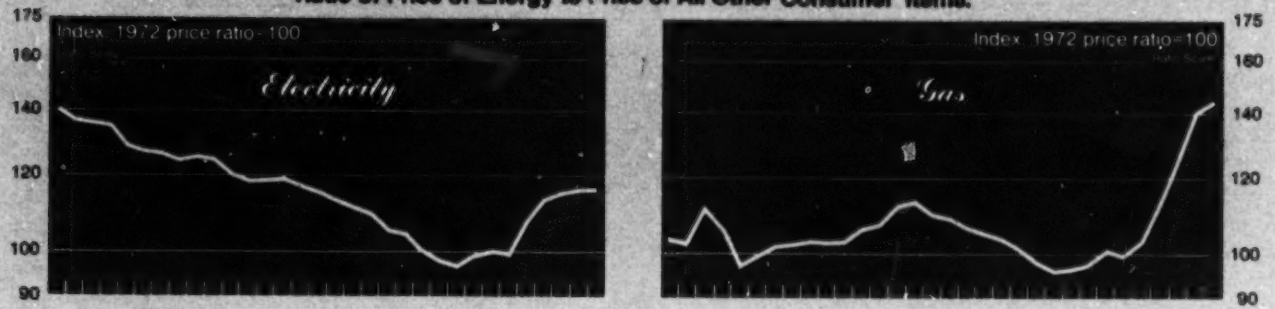
In the era between the two world wars, coal consumption leveled off as the growth of energy demand was increasingly met from domestic production of crude oil and natural gas. Further, the product mix of the economy began to include a higher proportion of consumer goods, which typically required less energy to produce than did heavy industrial goods. Most importantly, however, technological improvements allowed for greater efficiency in fuel usage. The amount of energy used per unit of real national output declined about 40% from 1917 to 1945.

Since the end of World War II, further

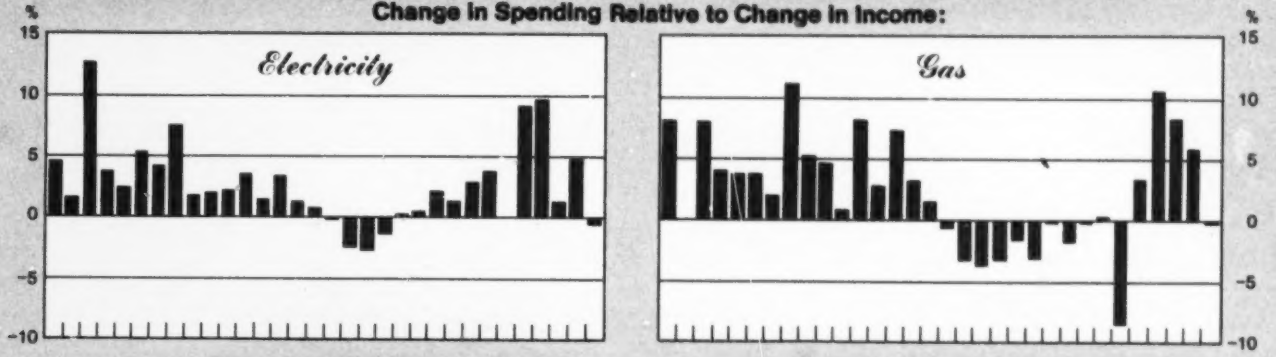




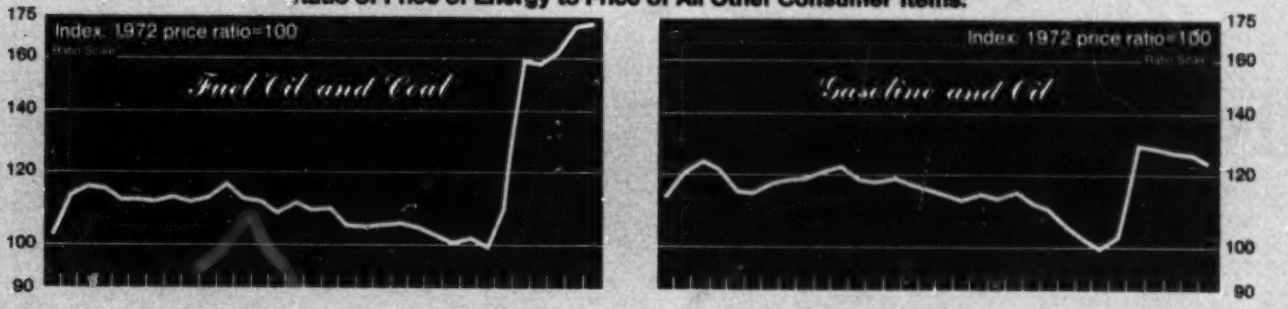
Ratio of Price of Energy to Price of All Other Consumer Items:



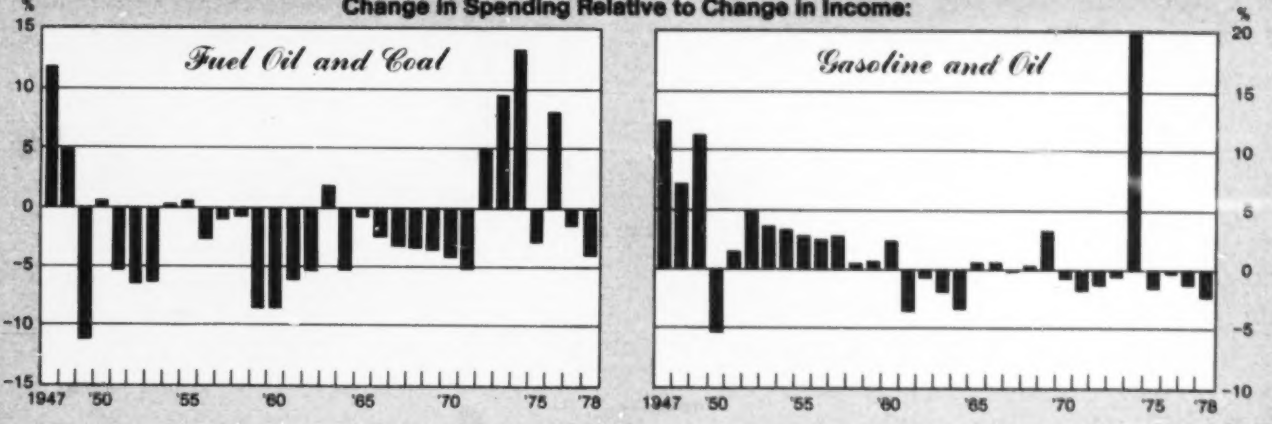
Change in Spending Relative to Change in Income:



Ratio of Price of Energy to Price of All Other Consumer Items:



Change in Spending Relative to Change in Income:



technological improvements in energy use have been achieved, but the energy-to-output ratio has changed very little. To a considerable extent this stability probably reflects the enormous growth in automobile usage in the last 30 years. The price of gasoline—in relation to the price of other consumer goods and services—was declining through about the mid-1960's. That was a major factor in the adoption of the automobile as a basic mode of transportation.

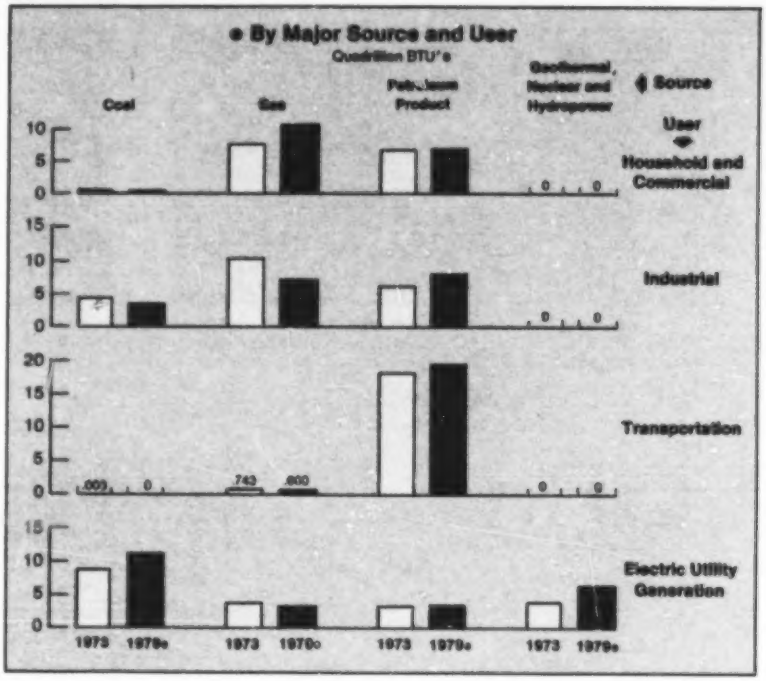
In the last decade, the relative price of petroleum products has been increasing sharply. In addition, imports of petroleum—which began modestly in the 1940's—have been rising steadily as domestic oil production began to diminish after 1970. A steadily rising proportion of total energy consumption has been met by imports of petroleum—at sharply rising prices. The problems of what kinds of energy will be available, at what prices, and from where have become more acute and

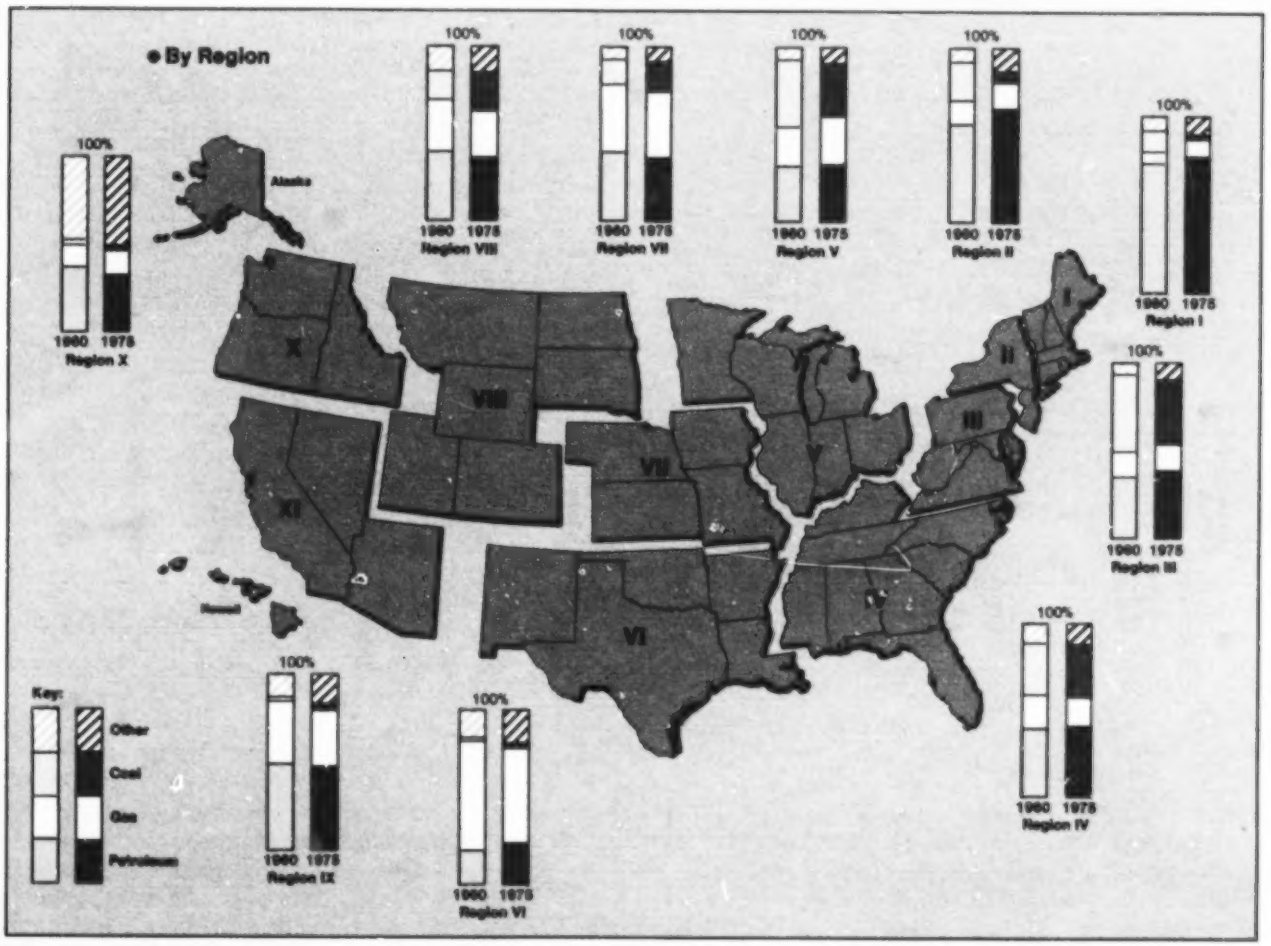
Consumption of Energy

interwoven with the future course of economic activity. For example, business in general, in an effort to minimize use of expensive energy, has shifted somewhat from capital-intensive production processes to labor-intensive processes. And yet, in so doing, the potential for improvements in labor productivity has been diminished. In another example, it might be desirable to switch from expensive, imported oil to cheaper, domestic coal, yet concerns about how much of coal's high sulfur content would escape into the atmosphere may preclude that move.

Ken Goldstein

SOURCES: *Energy in the American Economy,* by Sam Schurr for The Resources For the Future (The Johns Hopkins University Press); Bureau of Economic Analysis; The Department of Energy; The Conference Board.





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Political Action Committees

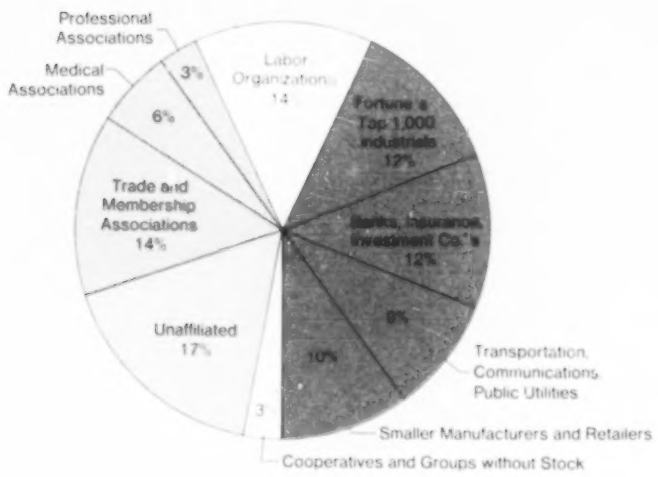
Economic Road Maps
Nos. 1868-1869 December, 1979

With the 1980 election less than a year away, considerable interest has been generated in the ways political campaigns are financed. Now under the Federal Election Campaign Act of 1972, there is public financing of the presidential campaign, but congressional races are still funded largely by individual contributors. An individual may contribute money to a candidate in three ways: directly to the candidate (maximum $1,000 per election), through a Political Action Committee ($5,000 maximum per calendar year), or to the national political parties (maximum $20,000 per calendar year). An individual may not contribute more than a total of $25,000 in a calendar year. It should be noted that money is only one aspect of a political campaign. Get-out-the-vote workers, phone-bank operators, and other volunteer campaigners can provide immeasurable support to a candidate.

Non-Party Political Action Committees
1977-1978

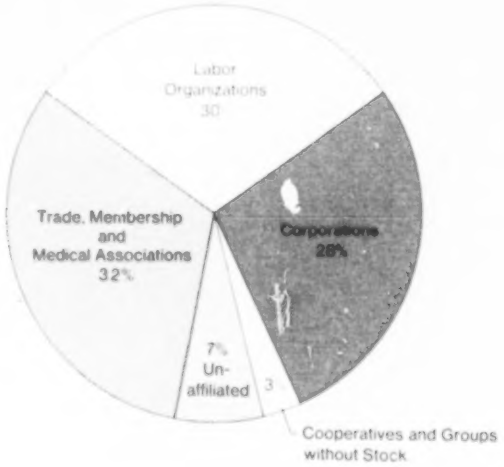
Number of Committees by Affiliation

1,938 = 100%



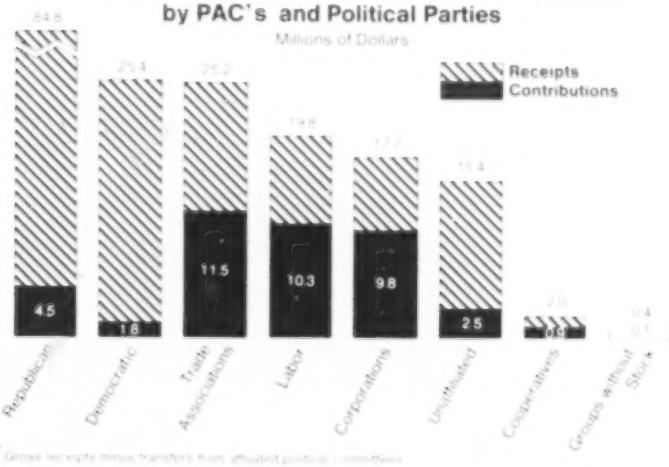
Contributions to Federal Candidates by Affiliation

$35.1 Million = 100%



Receipts and Contributions to Federal Candidates by PAC's and Political Parties

Millions of Dollars

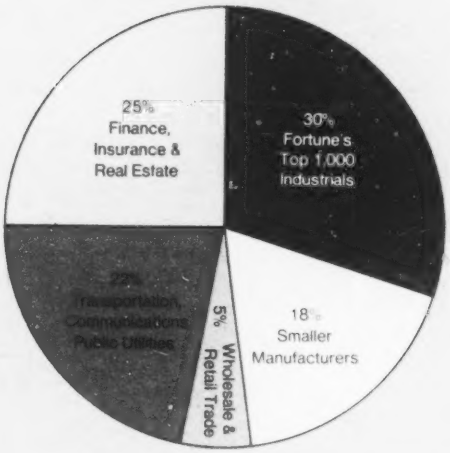


* Gross receipts minus transfers from affiliated posts or committees.

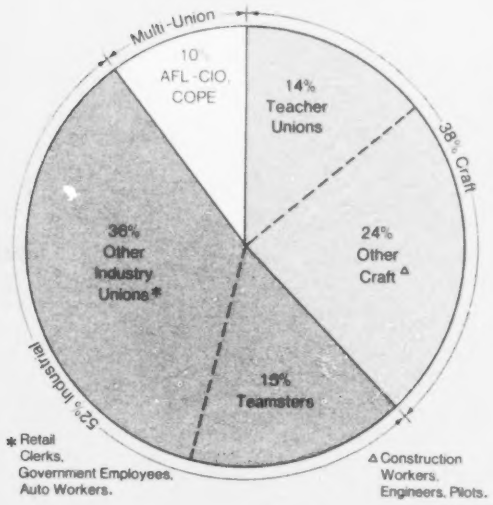
Political Action Committees (PAC's) can be set up by any group of people in order to raise funds for political candidates. The group may or may not be affiliated with a sponsoring organization. Most PAC's are connected with a sponsor such as a corporation, a labor union, or a trade association, which can solicit its employees, stockholders and members to contribute money voluntarily. The sponsoring organization is not allowed to give money to the PAC for contributions to federal candidates; the sponsor may only allocate money to the PAC for administrative costs. All committees, both PAC's and political party committees, must register with the Federal Election Commission (FEC). The FEC monitors all receipts, disbursements

Distribution of Corporate and Labor Union PAC's

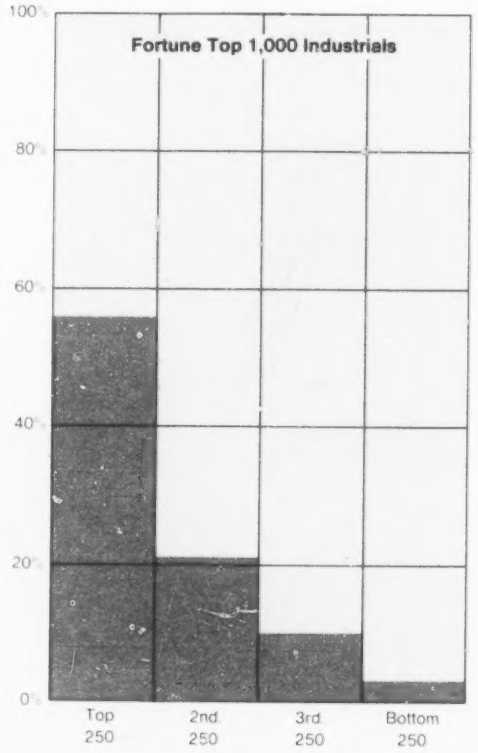
Corporate PAC's
by Number of Committees
767 Committees = 100%

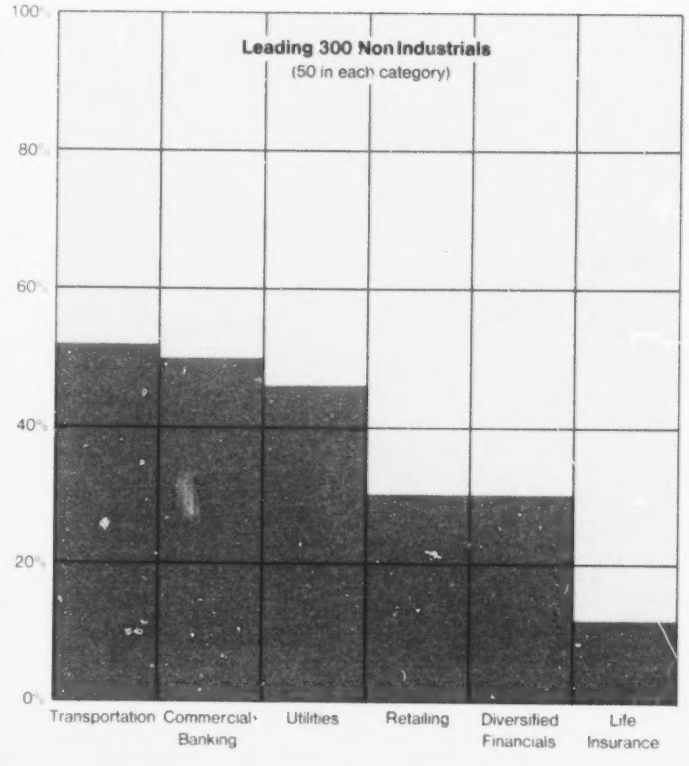


Labor Union PAC's
by Number of Committees
260 Committees = 100%



Percent of Largest Companies with at Least One PAC



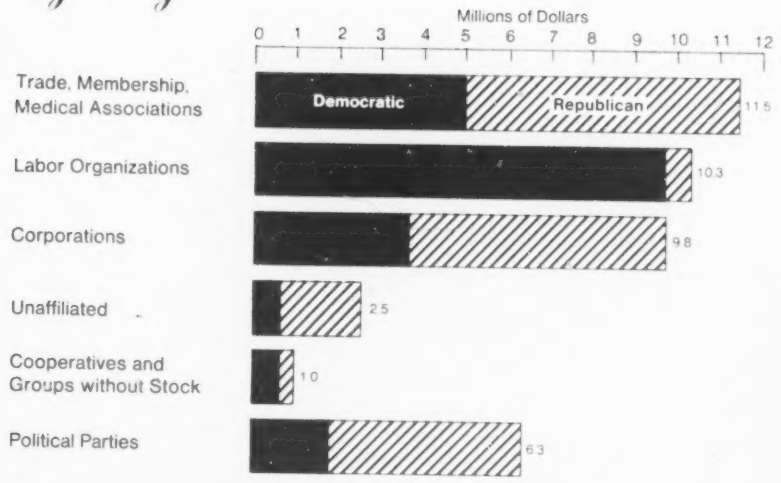


and contributions to candidates running for federal offices: the House of Representatives, the Senate, and the Presidency. This report deals only with contributions made in 1977-1978 to federal candidates as reported by the FEC, and not with contributions to state and local candidates.

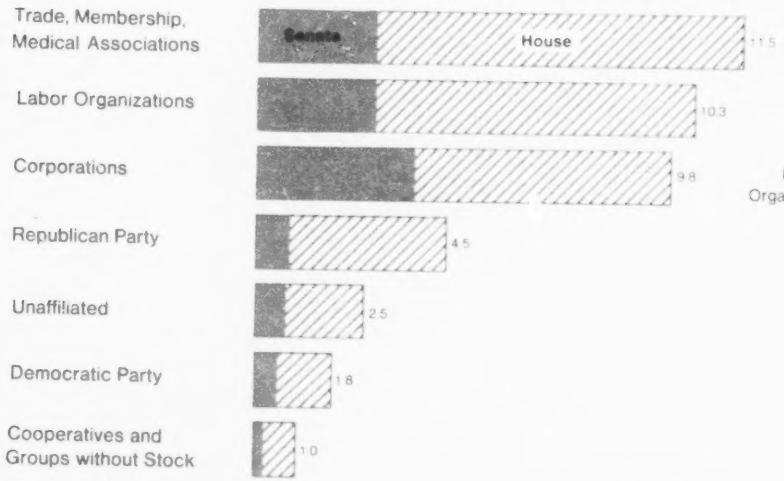
Currently, a multicandidate PAC may contribute up to $5,000 to a candidate for each election, or a total of $10,000 if the candidate wins the primary and goes on to the general election. The House of Representatives recently passed a bill that lowers the limit to $3,000 per election for House races only, but this bill is still pending in the Senate. The House proposal would prohibit House candidates from accepting more than $70,000 from all PAC's during

PAC Contributions to Federal Candidates

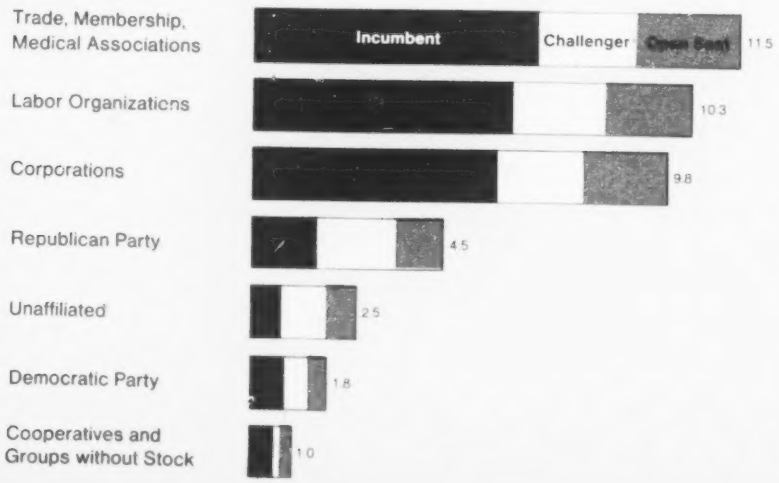
By Party



By House of Congress



By Type of Candidate

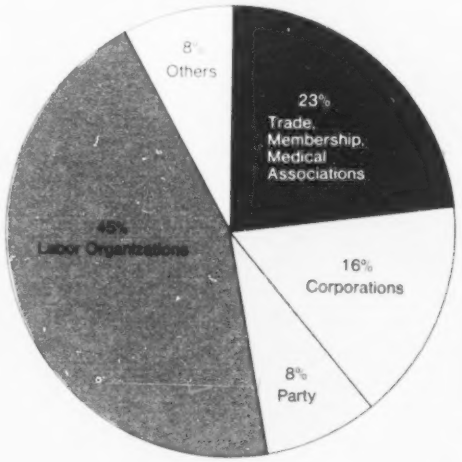


Sources of Contributions to Federal Candidates

Party and Non-Party PAC's

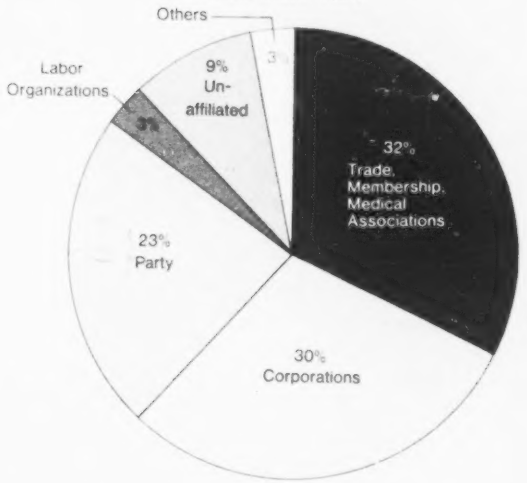
To DEMOCRATIC Candidates

$21.5 Million = 100%



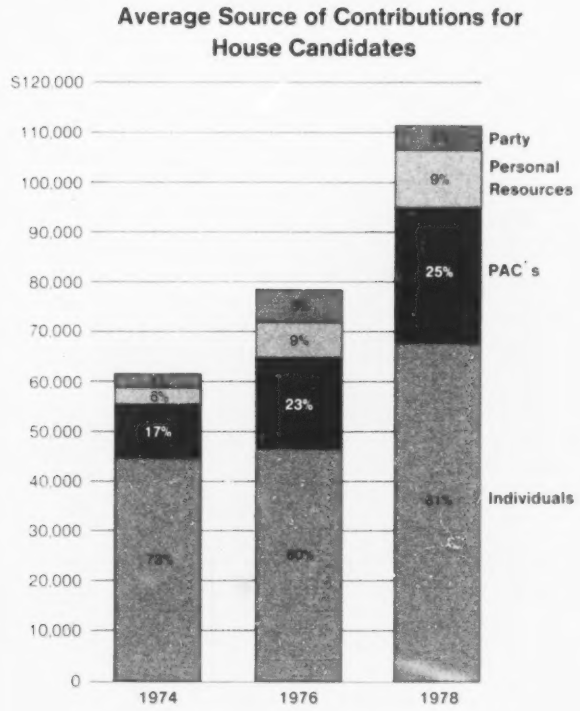
To REPUBLICAN Candidates

$19.8 Million = 100%



the two-year election cycle. The average House candidate received about $28,000 from PAC's, a figure well below the proposed maximum. Only a small percentage of the PAC receipts actually go to the candidates, as shown on the front page. The other funds cover operating costs, expenditures made on behalf of the candidates, or are carried over to the next two-year election cycle.

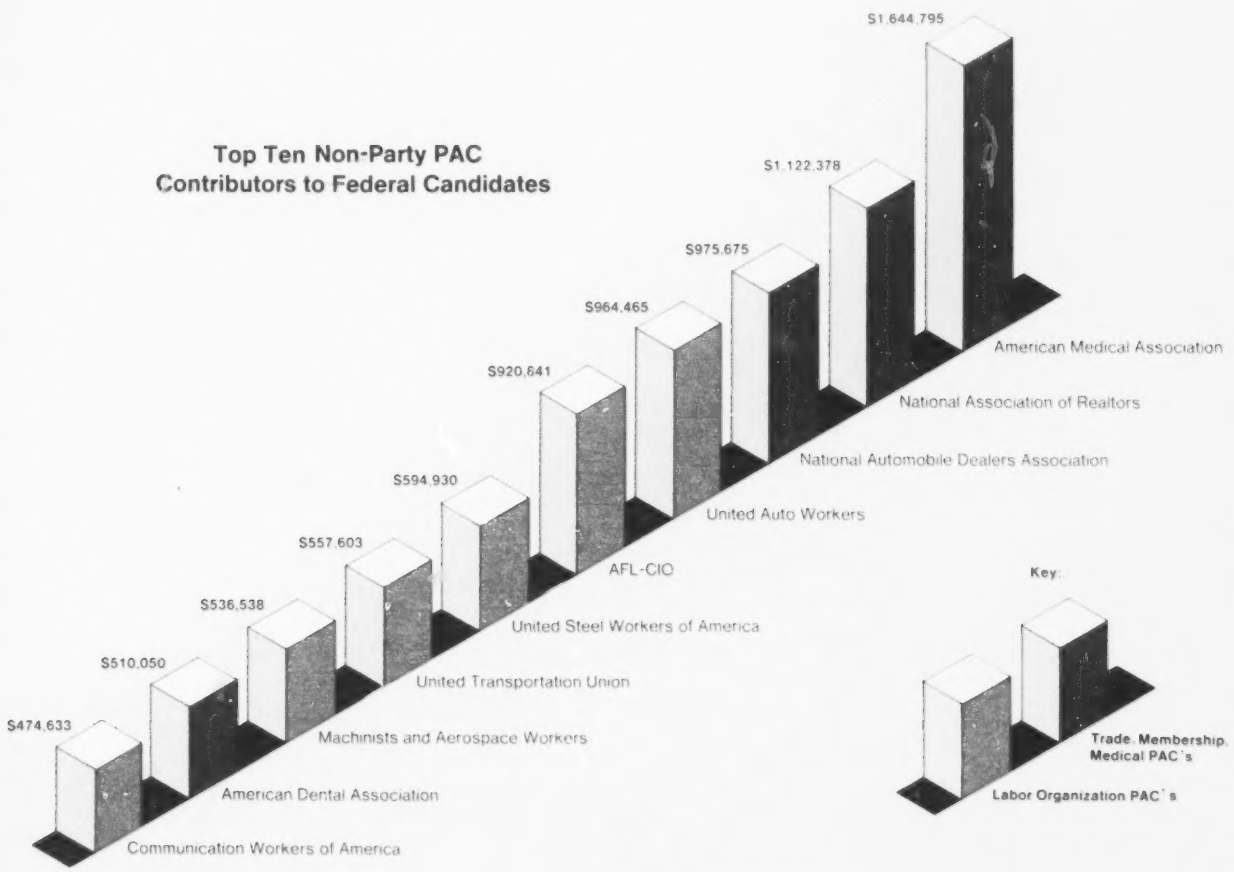
The FEC groups the nonpolitical party PAC's into six categories. The *trade and medical associations, membership organizations,* and the *labor organizations* give most of the money to federal candidates. Of the 1,938 nonparty PAC's, the ten largest contributors—all trade, medical



and labor committees—gave $8.3 million. This means that one-half of 1 percent of the total number of PAC's accounted for 24% of all PAC money given to federal candidates. According to FEC data, the largest *corporate* PAC contributor, sponsored by International Paper, gave $173,056, a sum equal to only just over 10% of the $1.6 million given by the American Medical Association. Only 22% of the *Fortune* top 1,000 industrials and 37% of the leading nonindustrial companies have a PAC. Very few *cooperatives*, such as the Associated Milk Producers, have PAC's, and these have been grouped with the *organizations without stock*, which also include groups such as private law firms and right-to-life committees. PAC's without sponsors are here called *unaffiliated*, and these include groups sometimes referred to as ideological committees. In most PAC's, a committee of members decides which candidates will receive PAC money. In other PAC's, contributions can be earmarked by a contributor for a specific candidate.

Peggy Ann Watts

Sources: Federal Election Commission; *Regulation*, May/June, 1979; *National Journal*, July 28, 1979; The Conference Board.



ECONOMIC ROAD MAPS

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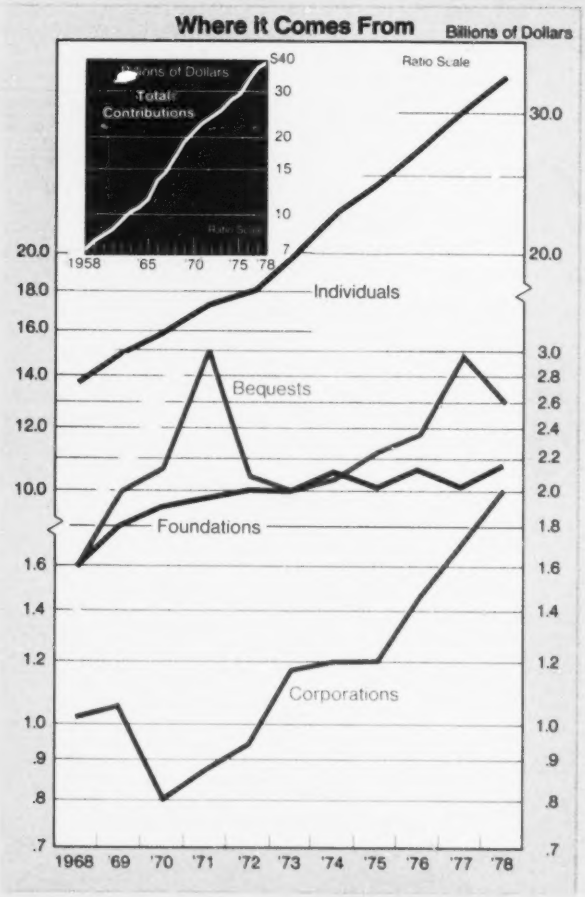
U.S. Philanthropy

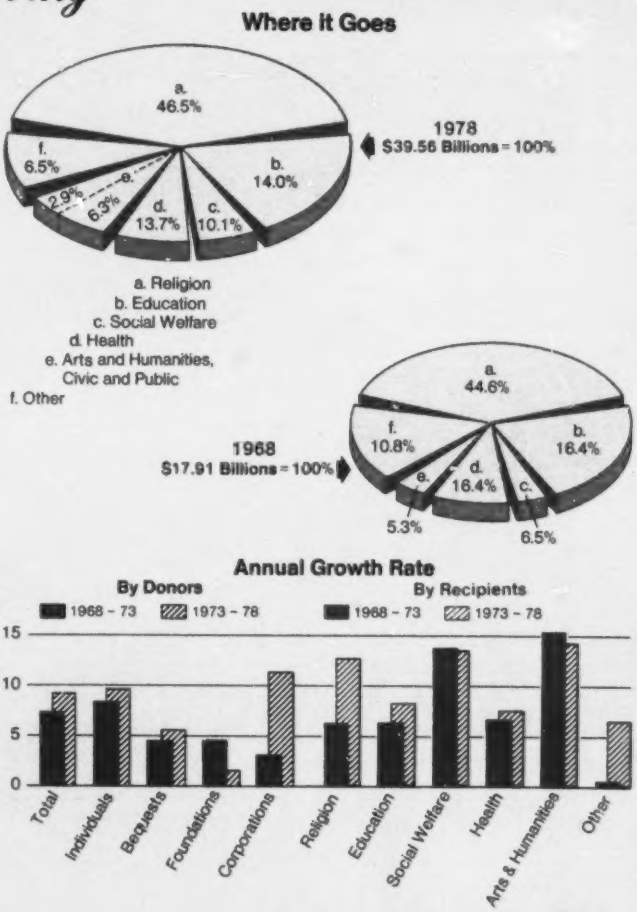
Economic Road Maps
Nos. 1870 - 1871

January, 1980

It all started with Benjamin Franklin who, among his many other accomplishments, is credited with being instrumental in the founding of the first public library and volunteer fire department. The tradition took root: The propensity of Americans to involve themselves in a great variety of causes and support them financially, as well as with time and effort, is well-known. Major social movements in this country originated in such voluntary cooperative efforts. The magnitude of total giving cannot be fully documented, but the American Association of Fund-Raising Counsel (AAFRC) estimates total charitable contributions from all sources at $39.6 billion in 1978. The value of unpaid work by volunteers has been estimated to equal the cash contributions.

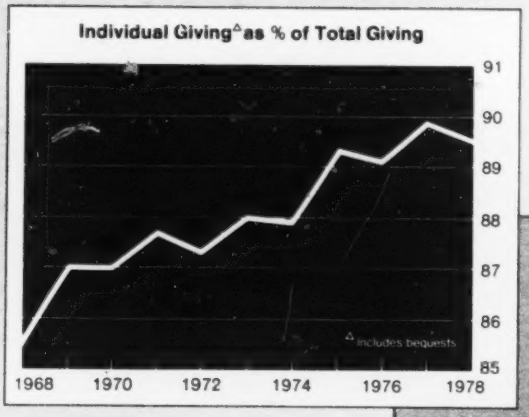
Total Giving

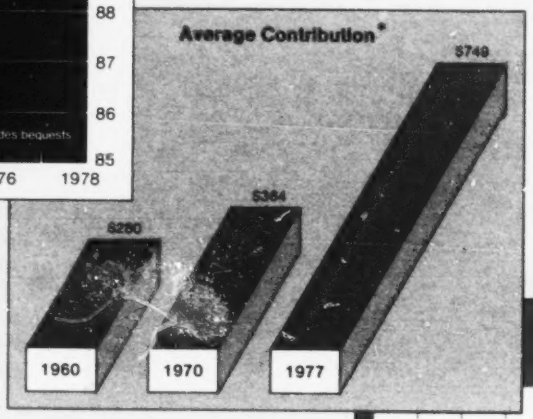


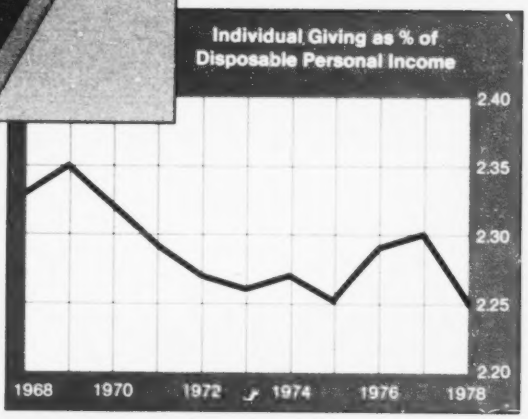


The role of private philanthropy has changed greatly over the years. We have seen government at all levels assuming growing responsibility for the cost of higher education, health care, and assistance to the poor and the aged—areas in which voluntary support has traditionally been heavily involved. For instance, the proportion of public funds in total national health expenditures rose from 20% to 42% between 1940 and 1977. Giving to religious organizations remains by far the largest element in voluntary giving, as they are the only recipients financed exclusively by private donations. In 1978, some $18½ billion were contributed to religious causes; health and education received about $5½ billion each, and the arts more than $2½ billion. Giving to the arts is the fastest

Individuals

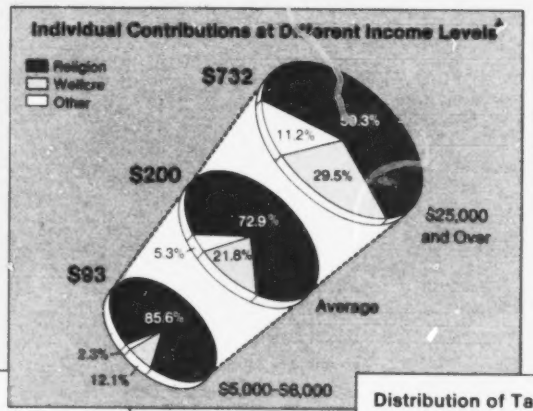






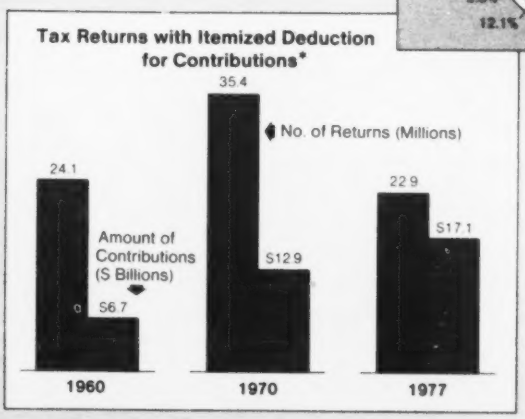
growing category, having more than doubled in the past five years.

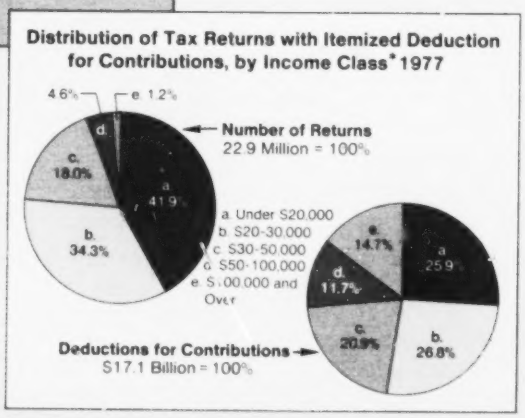
Individuals gave $32.8 billion to charitable organizations in 1978, according to the AAFRC. These estimates are based on reports from key charitable groups, which traditionally receive the greatest share of their support from individuals. At the present, the only specific detailed information on individual giving comes from Internal Revenue Service analysis of the tax returns of individuals who itemize deductions. The trend, however, is for individuals not to itemize because of the more generous standard deductions introduced over the past few years. Returns with itemized deductions peaked in 1970 at 35.4 million and have since declined to 22.9 million with more declines anticipated. This trend has aroused some concern among organizations that depend on donations from individuals. As a result, legislation is being proposed to allow taxpayers to itemize charitable



* These totals are derived from itemized tax returns with deductions for contributions as calculated by the IRS

▲ Based on 1972-73 Consumer Expenditure Survey by the Bureau of Labor Statistics

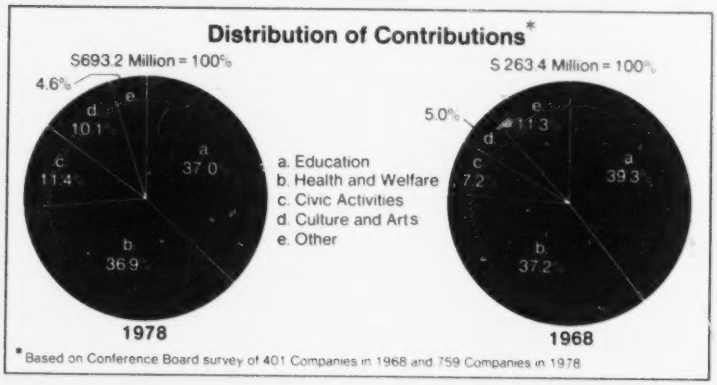


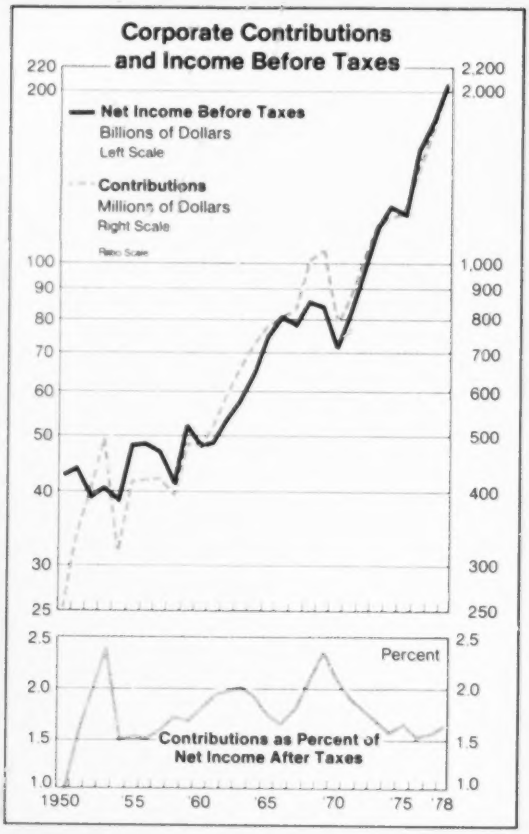


Corporations

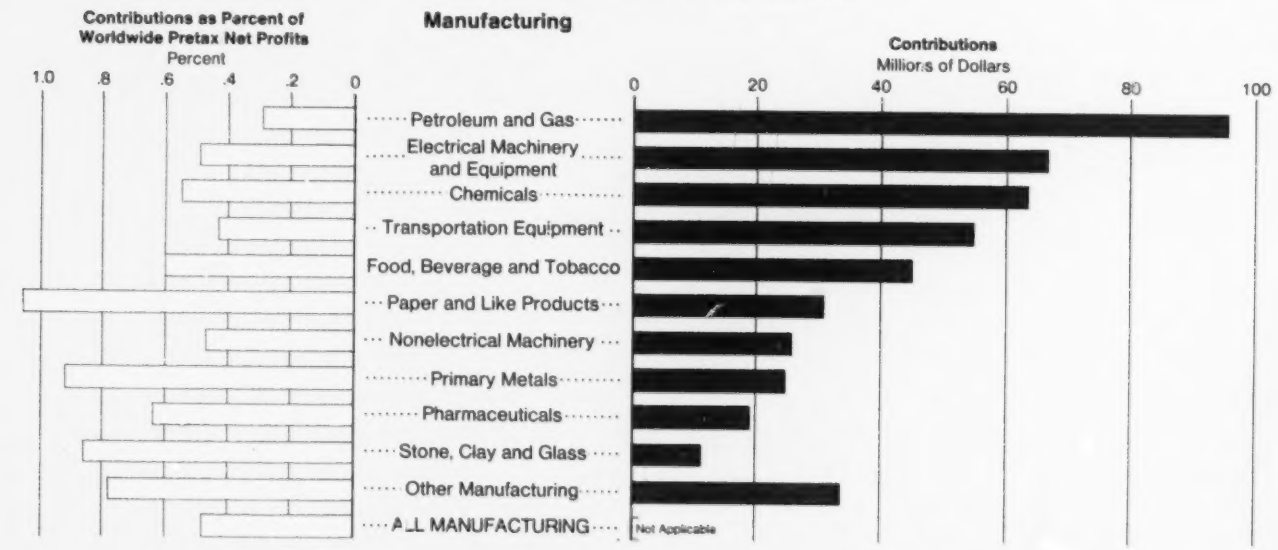
contributions in addition to taking the standard deduction.

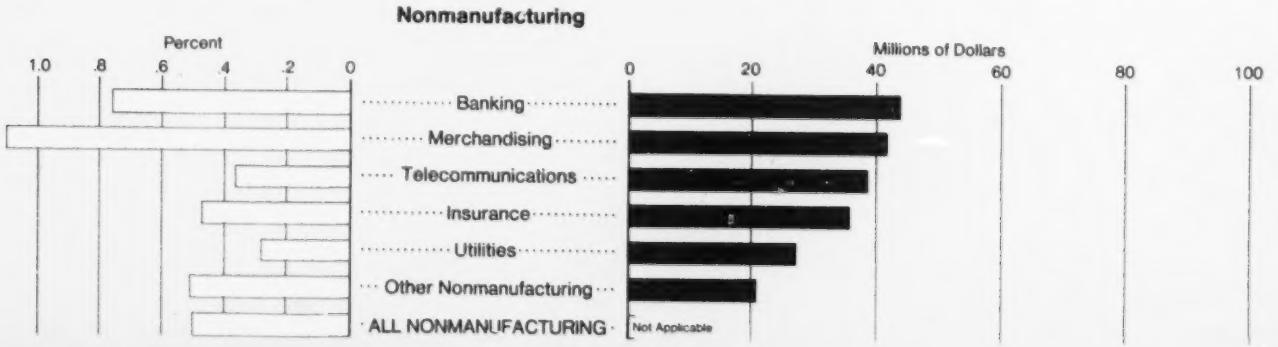
Much of the information on page 2 comes from IRS tabulations. Although the number of itemized returns has been shrinking, the average charitable contribution deduction has been rising and, indeed, more than doubled between 1970 and 1977. As already noted, religious organizations take the largest share of individual giving. According to data from a 1972-1973 survey, religion accounts for 85.6% of low-income persons' giving, but for only 59.3% of giving at higher income levels. This is because better-off people also support education, culture and hospitals. However, a substantial part





Corporate Contributions by Industry:

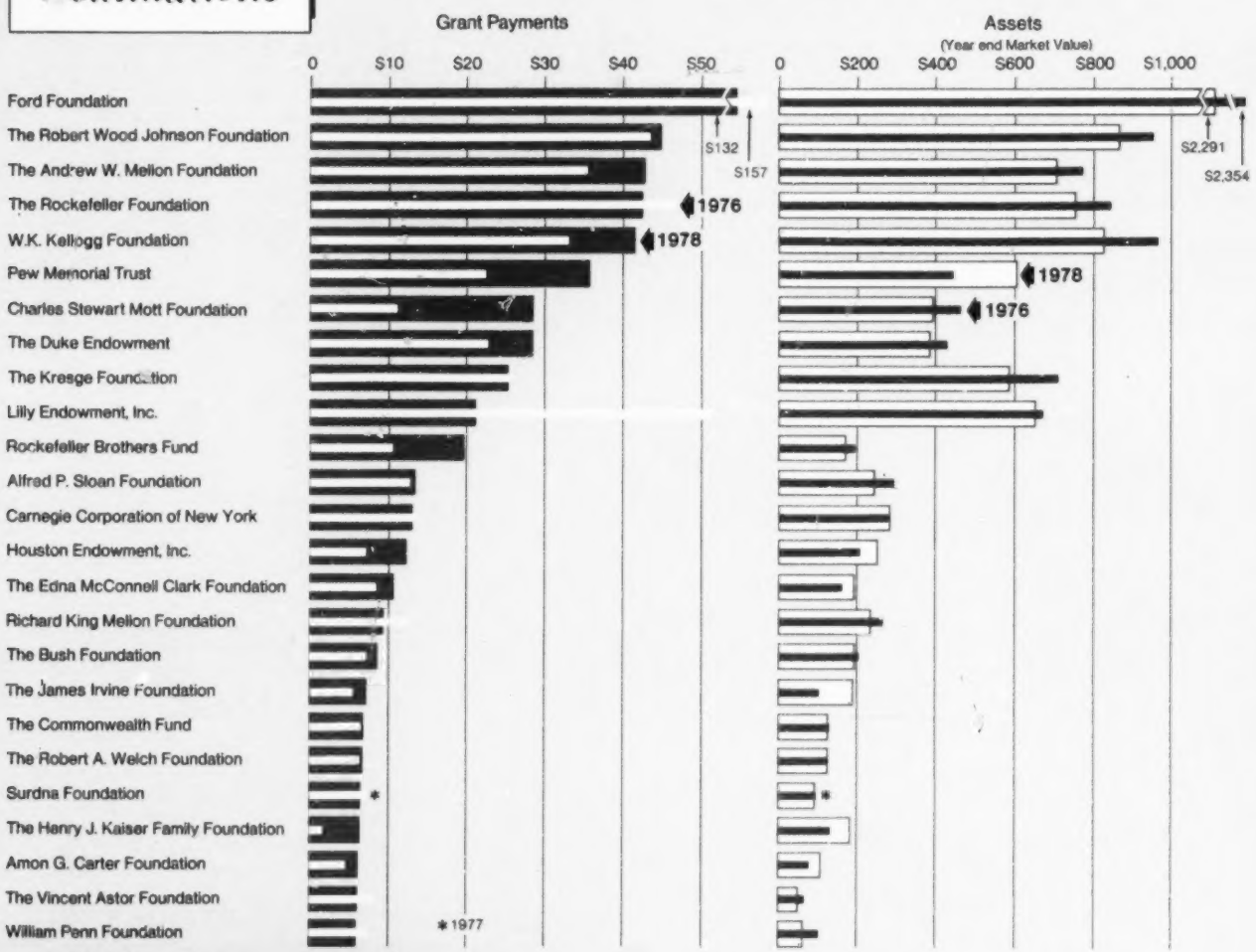


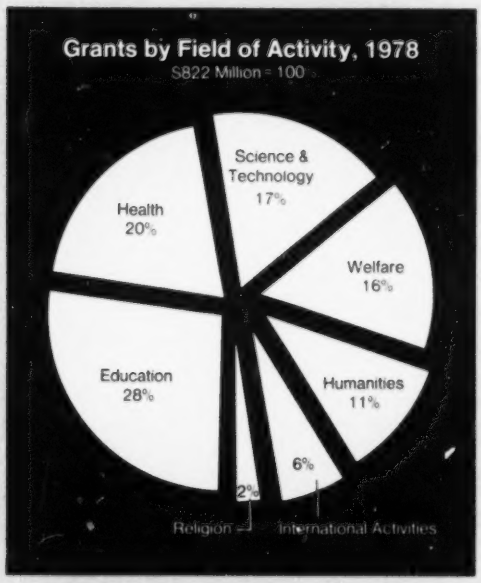


Foundations

Grant Payments and Assets of Major Private Foundations

Millions of Dollars





of church donation goes for the running of church-sponsored schools—and thus to education.

Corporations (including company foundations) contributed $2.0 billion to a variety of causes in 1978. Corporate giving grew faster than that of any other sector—giving rose by about 18% annually during the past three years. Federal tax law permits corporations to deduct up to 5% of their taxable income for contributions; the average contribution is about 1 percent. In addition, many corporations also underwrite a number of other undertakings—such as public TV programs and museum exhibits—but take the cost as a business expense rather than a charitable contribution. The Conference Board annual survey of corporate contributions shows that contributions of 759 major companies totaled $693 million, and the average contribution as percent of worldwide taxable net income was about ½ of 1 percent. The Conference Board survey covers 35% of all corporate giving.

Foundations made grants of $2.16 billion and bequests totaled $2.6 billion in 1978.

Eva Culen

Sources: U.S. Departments of Treasury, Labor, and Commerce; American Association of Fund-Raising Counsel Inc.; The Foundation Center; The Conference Board.

ECONOMIC ROAD MAPS

Eva Culen, Editor — Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director

Prices for Quantities of this chart will be supplied on request to Information Service.

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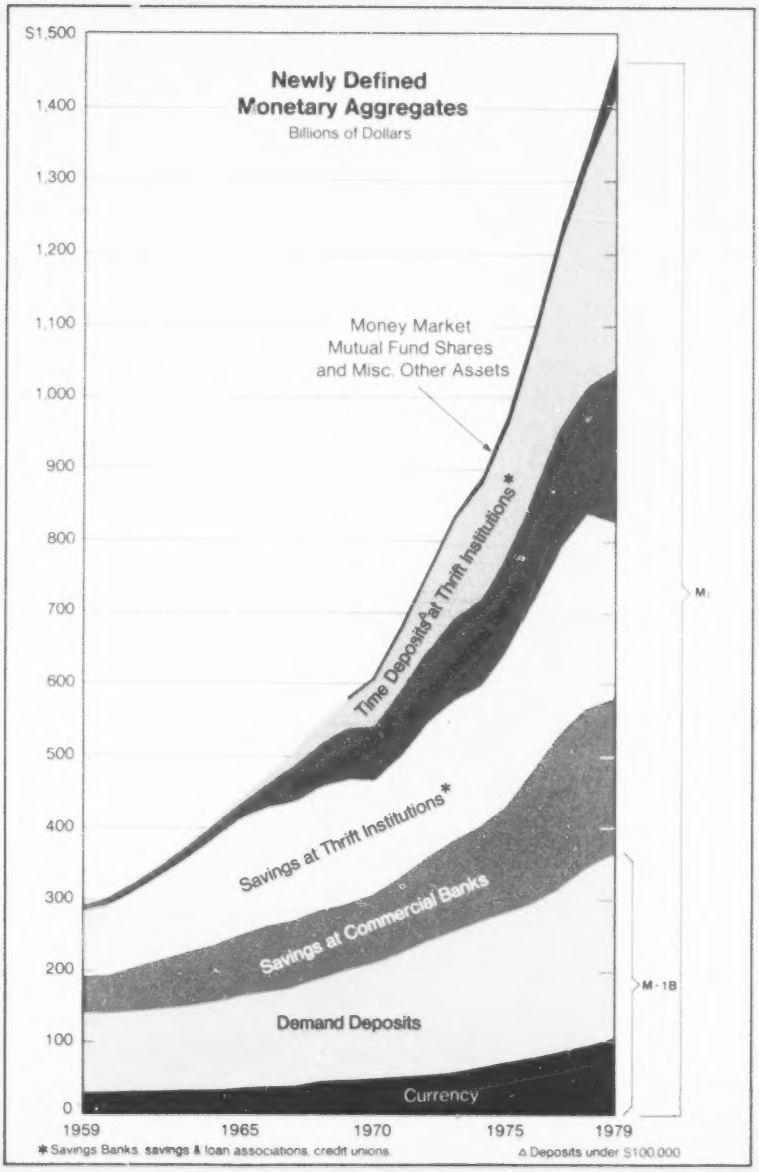
Money Supply and Interest Rates

Economic Road Maps
Nos. 1874 - 1875
March, 1980

Money is the medium of exchange used in the conduct of all transactions in the economy. Money is what is spent, saved, borrowed and lent. Hence, the behavior of the stock of money is intricately related to the behavior of the economy, especially over the relative effects on the real volume of activity and on the price level. These issues—which are critical to the formulation of economic policy—have been complicated in recent years by changes in methods of transactions and the character of financial assets. The Federal Reserve's new definitions of the money supply are an attempt to clarify what is and what is not money.



Money is the commodity people use to trade one thing for another. Money, then, is the stock of funds available to be spent to command goods or services. That means there is a relationship between the stock of money and the total dollar volume of spending for goods and services. In general, the faster one grows, the faster the other will grow. But a continuing problem for analysts and policymakers is the question of what ought to be included in the definition of money.

For many years, it seemed fairly simple that money meant currency plus immediately usable funds (demand deposits such as checking account balances). But both businesses and consumers have grown more sophisticated about handling financial assets and have generally trimmed the proportion kept in the form of traditionally defined "money." Specifically, money not immediately needed has been less and less likely to be left in immediately usable form, and more likely to be converted into a form where the money earns interest. The issue has been further clouded by changes in banking regulations, which have allowed depositors to make withdrawals, in some instances, from these balances similar to the way withdrawals are made from demand deposits.

In the last few years, some banks have begun to offer interest-bearing accounts—Negotiable Order of Withdrawal (NOW) or Automatic Transfer Service (ATS) accounts—from which depositors make withdrawals by means of quasi-checks. Additionally, credit union depositors have been offered check-like

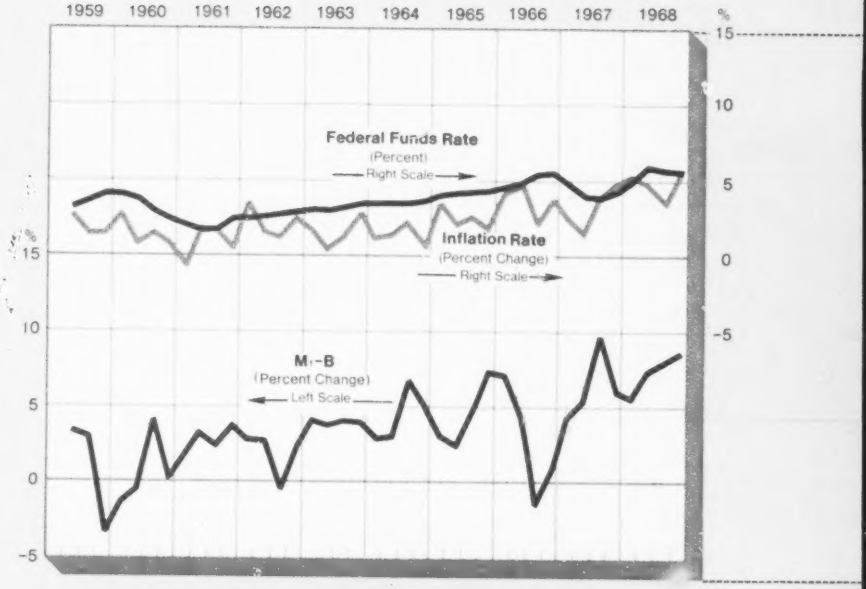
withdrawal facilities. Money market mutual funds have likewise begun to offer their customers similar services. Definitions of money supply had to be altered to recognize these changes in forms of financial assets. On a more abstract level, the task of defining what is and what is not money was directed away from the type of institution to the type of asset. In essence, assets can be typed in terms of their liquidity, that is, how readily they can be exchanged for commodities. Currency and demand deposits have always been included in the narrowest definition of money (M1) because of their high liquidity. The Federal Reserve's newly defined M1-B includes old M1 plus NOW, ATS, and credit union accounts, since they offer a like degree of liquidity.

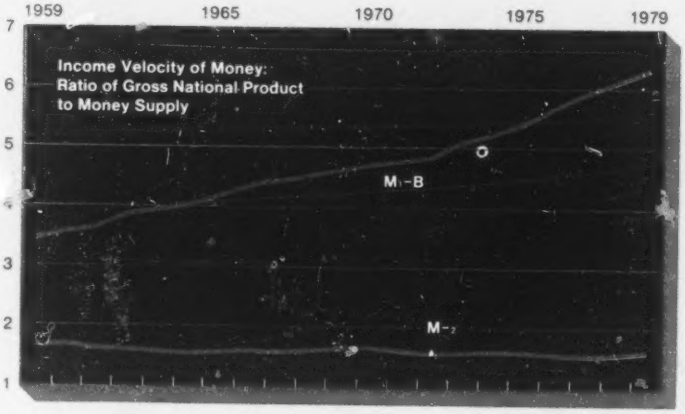
The new M2 measure includes M1-B plus a broad range of somewhat less liquid assets. These include savings and time deposits. The latter consist of funds in certificates of deposit (CD's), which entail depositing a sum (which nowadays can be as little as $100 or as much as $100,000), for a specified period (as short as 30 days or as long as several years) at an agreed upon rate of interest, and no withdrawal can be made for that duration without financial penalty.

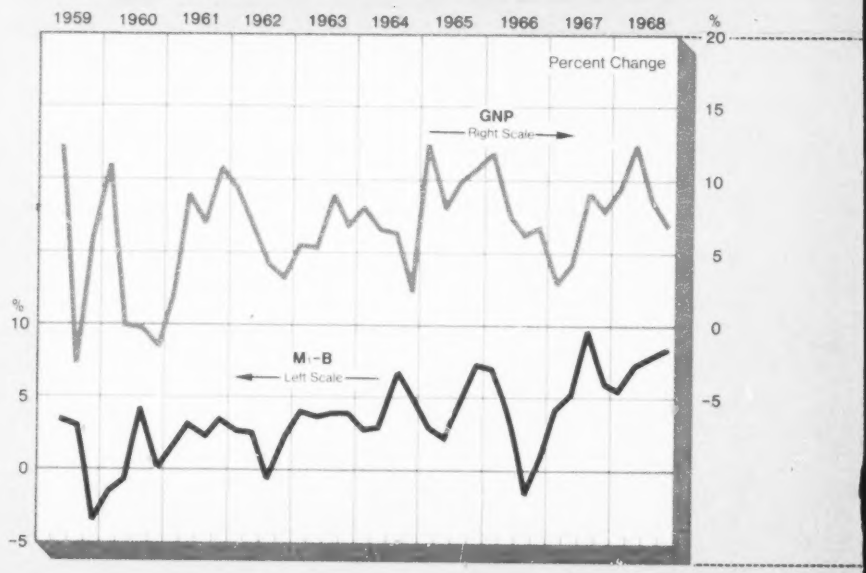
Still more broadly defined measures of money supply include other, less liquid, financial assets—such as commercial papers, bankers' acceptances, short-term Treasury securities, and large (over $100,000) denomination CD's.

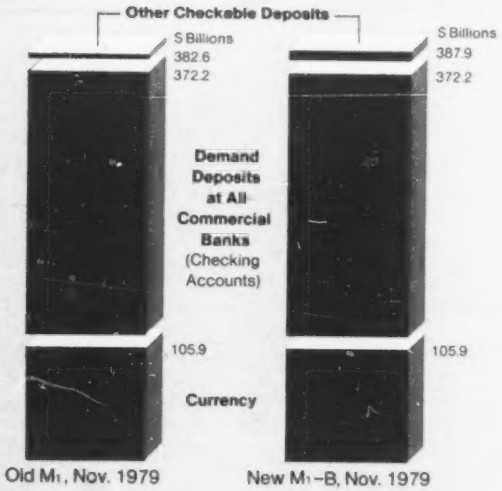
The change in the level of money supply is related to the change in the general level of

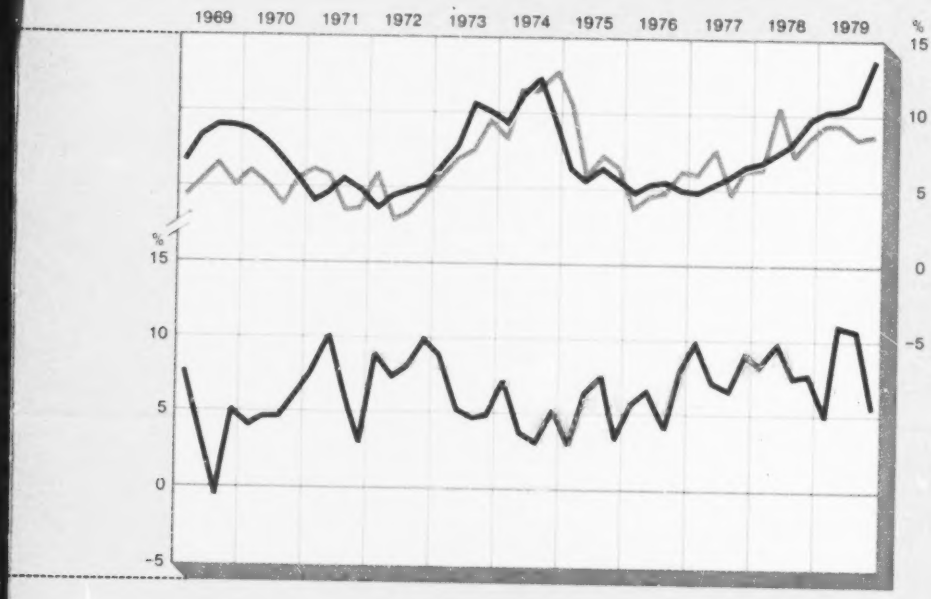
Money Supply and







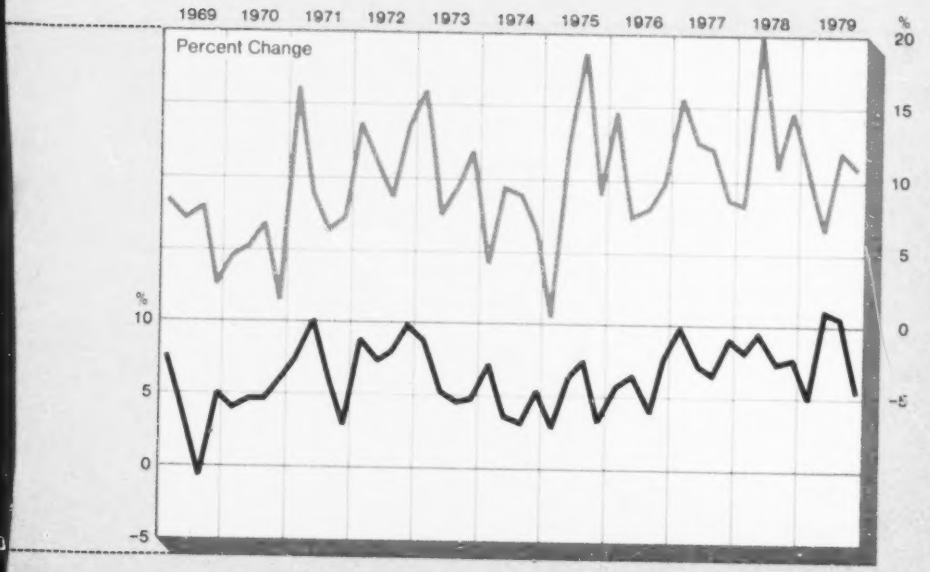


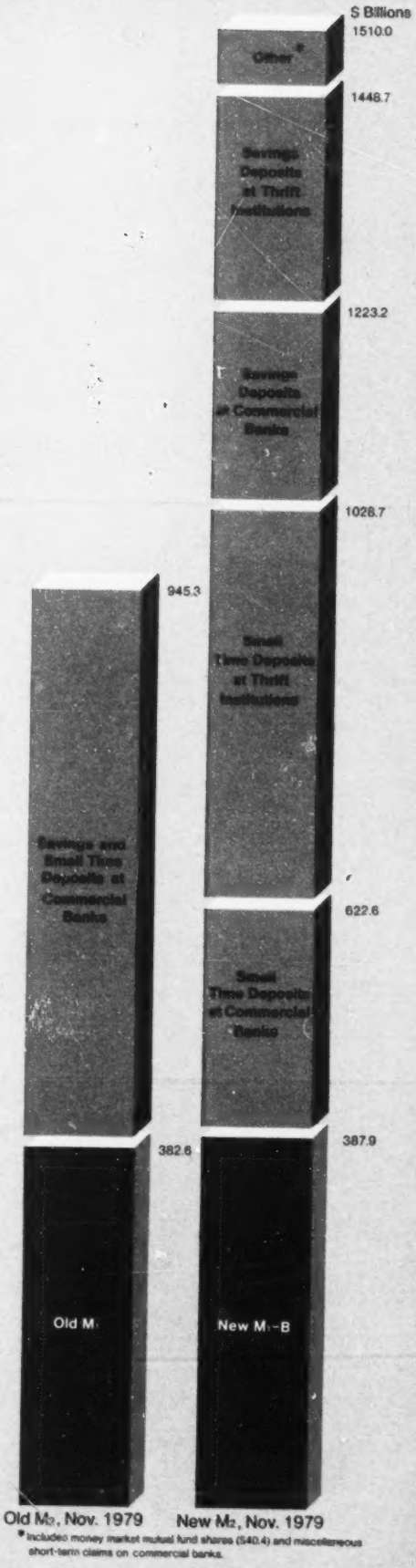


prices. The change in inflation is directly tied to changes in interest rates. In recent years, as the rate of inflation has spiraled upward, interest rates have soared to record levels. Further, the structure of interest rates is highly synchronized. That is, the difference between, say, the prime lending rate of major banks and the Federal Funds rate—the rate at which banks borrow from other banks—does not vary greatly. Hence, when the Federal Reserve allows the Federal Funds rate to rise, banks will hike their prime interest rate in proportion to that change. However, rates on loans that extend over a number of years (bond yields) tend to fluctuate more slowly and to a lesser extent than do rates on loans that extend over a short period of time.

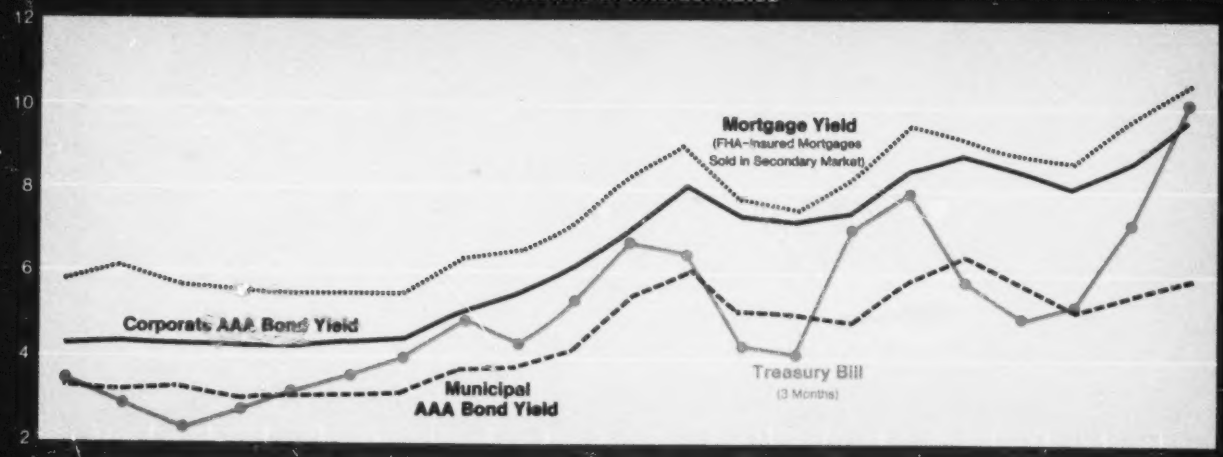
Ken Goldstein

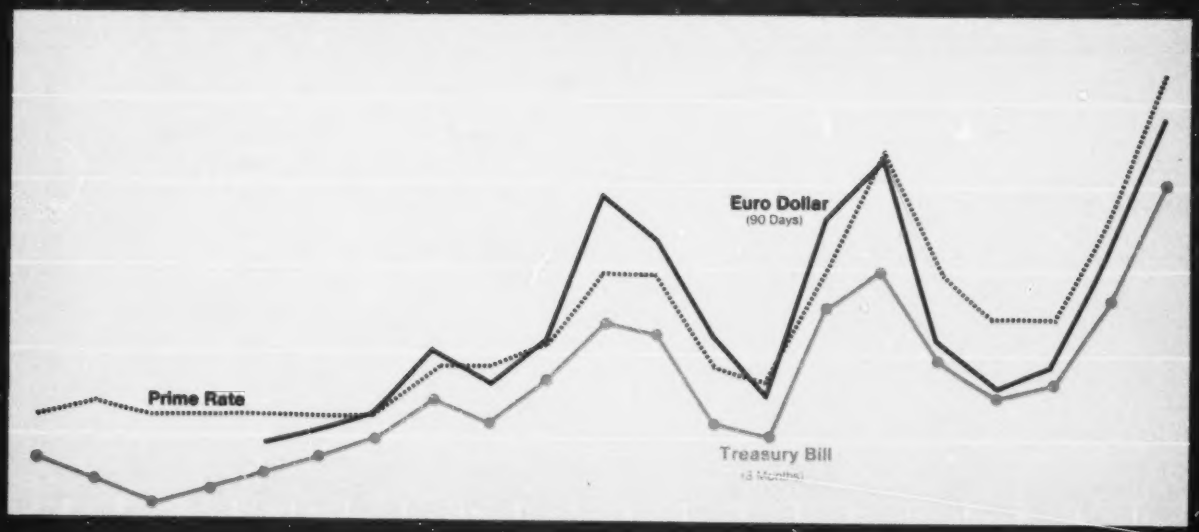
Sources: Federal Reserve Board; Bureau of Economic Analysis; The Conference Board.

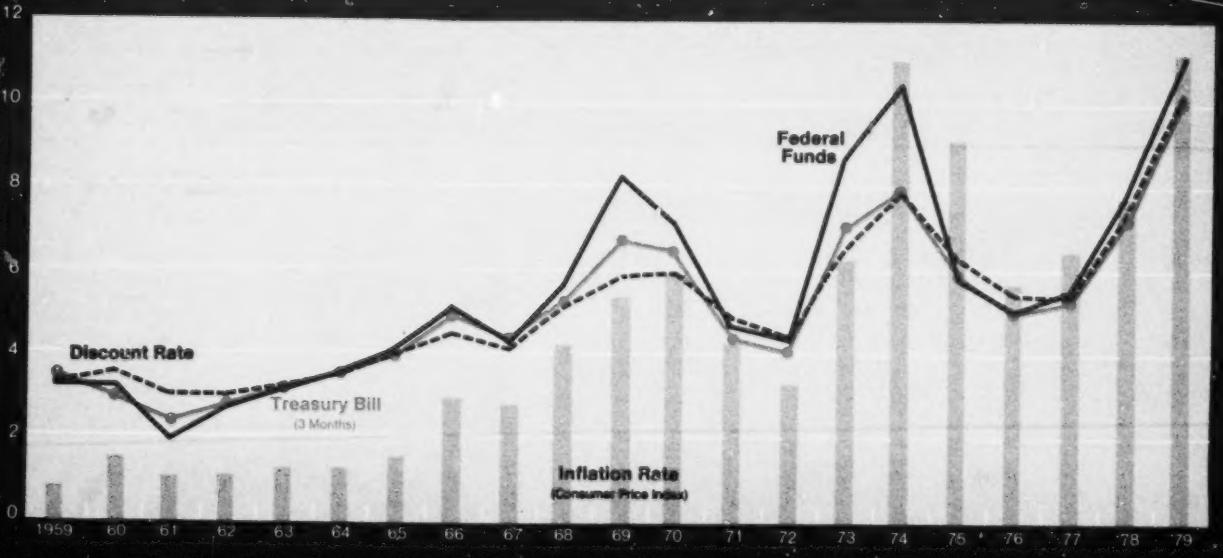




Structure of Interest Rates







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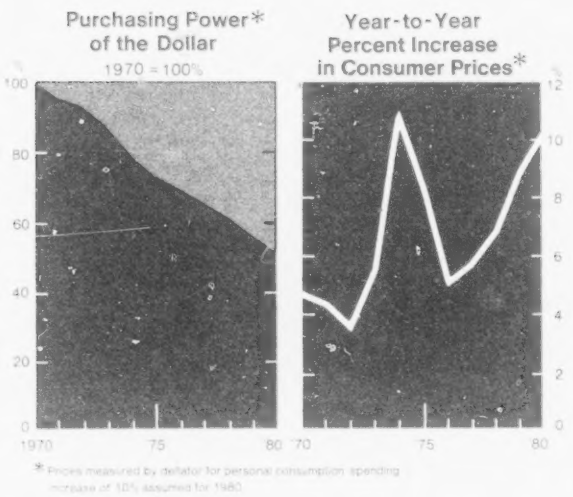
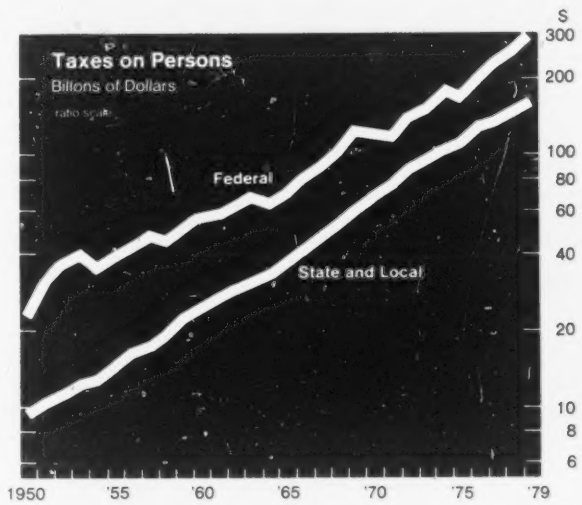
The Two-Way Squeeze, 1980

Economic Road Maps
Nos. 1876-1877

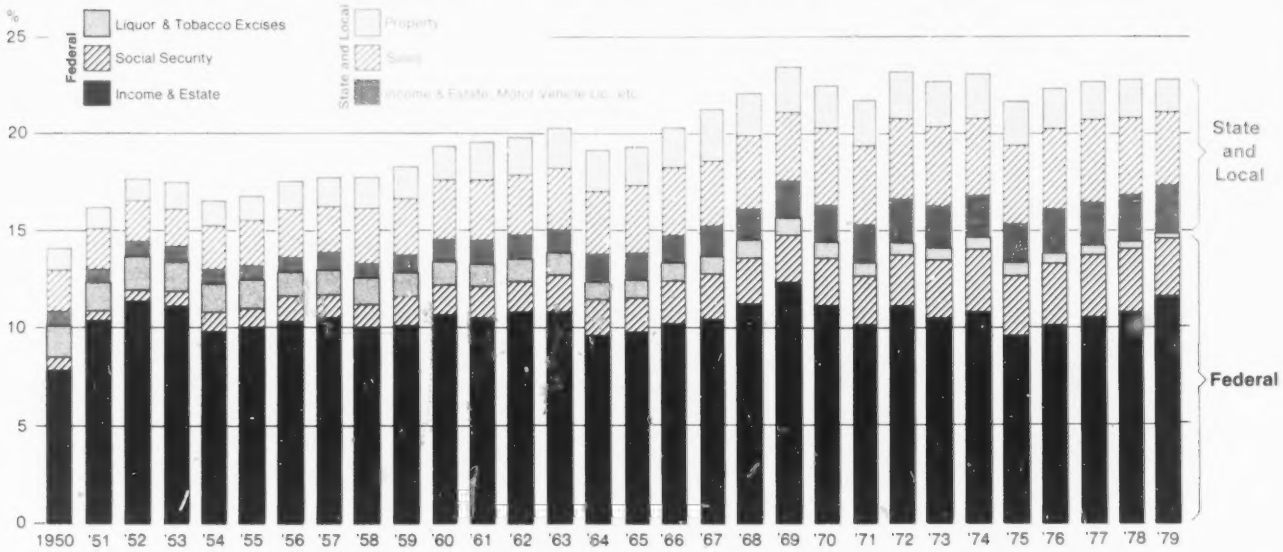
April, 1980

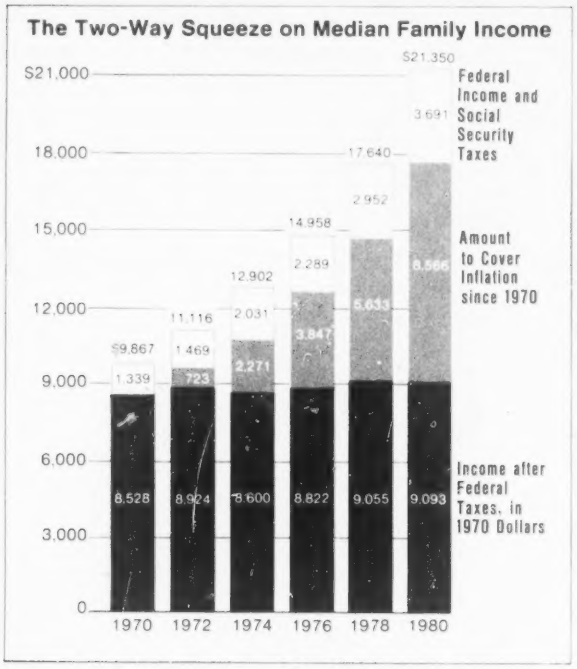
In 1970, a pretax income of $10,000 represented just about the average for American families. In 1980, in order to have the same real purchasing power after taxes that a $10,000 income provided in 1970, a family needs a pretax income somewhat over $20,000. This required doubling of income in 10 years largely reflects inflation, which has boosted the consumer price level by more than 90% since 1970. The rise in effective tax rates has been much less important for the average-income family, according to Conference Board calculations. At higher incomes, however, the effective federal tax rate has risen appreciably since 1970. Thus a high-income family's 1980 earnings must be more than double the 1970 level if it is to maintain its 1970 level of real after-tax purchasing power. These calculations take account only of federal income and Social Security taxes, because state and local income taxes vary widely.

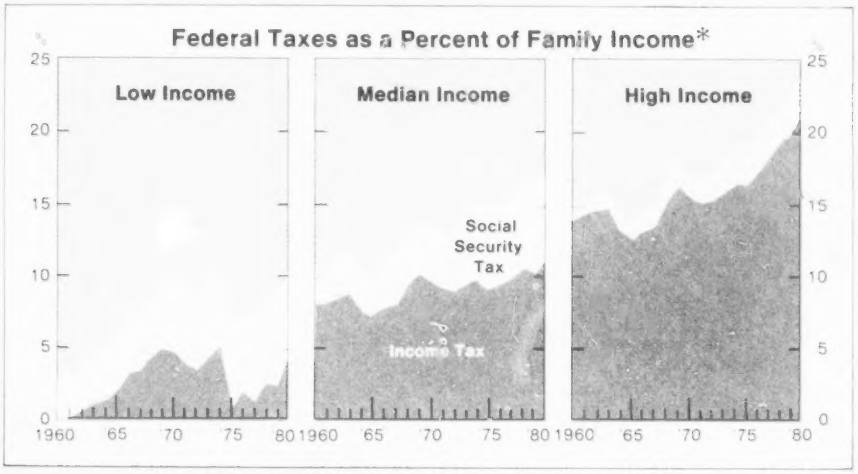


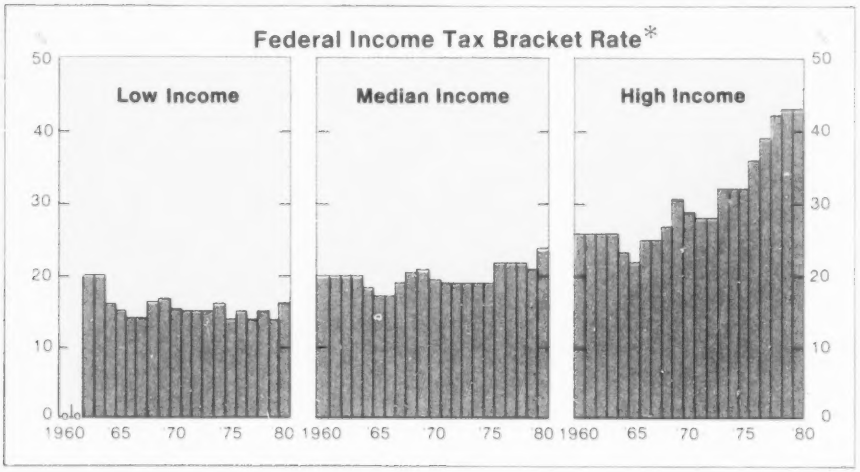


Taxes on Persons as Percent of Total Personal Income, 1950-1979









*Family income each year at the 20th, 50th, and 95th percentiles of the family income distribution. Estimated 1980 income levels are $10,550, $21,350, and $54,300, respectively. Calculations assume 4-person family with one earner.

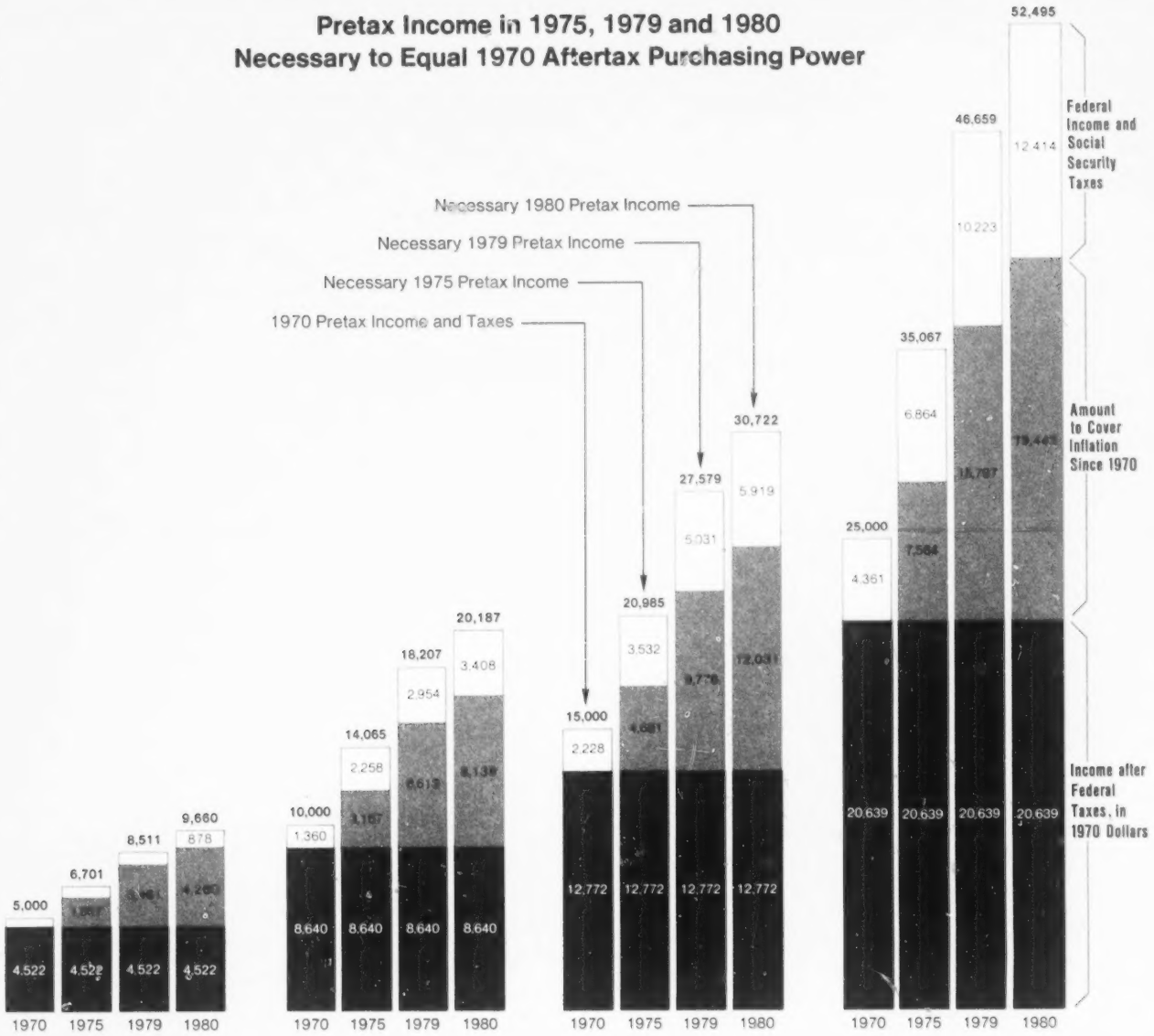
The Conference Board calculations detailed on page 3 show how much pretax income hypothetical families need this year (and needed in 1979 and 1975) in order to match the real after-tax purchasing power that they had in 1970. The 1970 pretax incomes of $5,000, $10,000, $15,000 and $25,000 roughly correspond to the 20th, 50th, 80th and 95th percentiles of the family income distribution in 1970. A 1970 income of $50,000 is also used. The family with $10,000 in 1970 needs $20,187 this year in order to have the same after-tax position it had 10 years ago. The family that had $25,000 in 1970 needs $52,495 this year, and the family with $5,000 then needs $9,660 now. (The assumptions, which include a projected 1980 rise of 10% in the price deflator for personal consumption, are outlined at the bottom of page 3.)

The Social Security tax rate went from 4.8% of the first $7,800 of earnings in 1970 to 6.13% of the first $25,900 this year, boosting the maximum tax from $374 to $1,588. By contrast, federal income tax rates were cut in the 1970's. There was a general rate cut effective last year, and a steady liberalization of the standard deduction during the decade. The "maximum tax on earned income," introduced in 1971, benefits high earners by making the top bracket rate on earnings 50% (whereas the top bracket for "unearned" income is 70%). And the "earned income credit," begun in 1975, benefits low earners by trimming their taxes and in some cases providing a "negative tax" payment.

Turning from hypothetical families to the average experience of actual families, the chart at the top of this page shows the tax and inflation take from the median family income. The estimated 1980 income of $21,350 is up 116% from 1970, while real purchasing power after taxes is up only 7% (using the same assumptions outlined on page 3). The middle chart shows that the percentage tax take has risen only modestly at the median income but sharply at high incomes. The problem of "bracket creep," where inflation-generated income growth moves taxpayers into higher tax brackets, has mainly affected the top 25%-30% of the income distribution. The bottom chart shows tax bracket rates: stable for the low-income family, edging up recently for the median income, but up 15 points in 10 years for the high-income family.

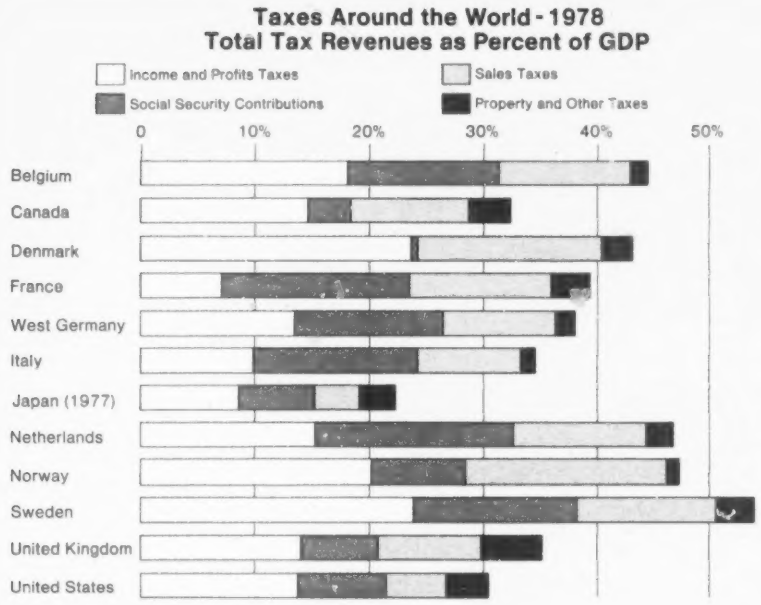
Federal, state and local taxes took 23% of U.S. personal income last year (page 1). Data

Pretax Income in 1975, 1979 and 1980
Necessary to Equal 1970 Aftertax Purchasing Power



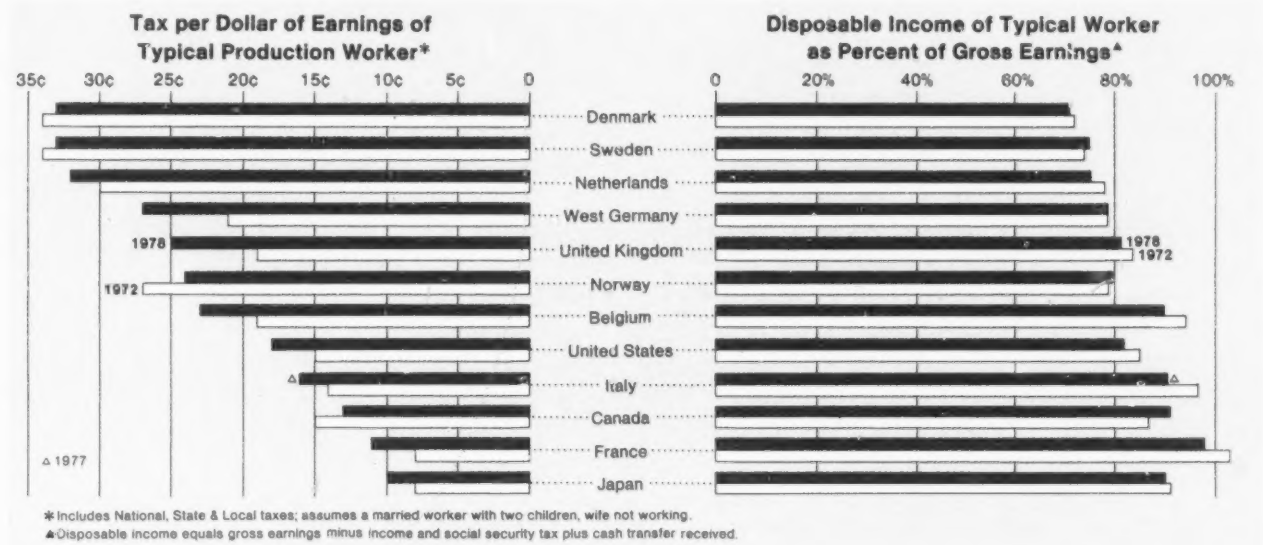
	$5,000	$10,000	$15,000	$25,000	$ 50,000
1970 PRETAX INCOME					
Less: Federal income tax	238	996	1,854	3,987	11,982
Less: Social security tax	240	374	374	374	374
Equals: Income after federal taxes	4,522	8,640	12,772	20,639	37,644
1975 NECESSARY PRETAX INCOME	6,701	14,065	20,985	35,067	71,377
Less: Federal income tax	130	1,067	2,707	6,039	19,111
Less: Social security tax	392	691	825	825	825
Less: Amount to cover inflation since 1970	1,657	3,167	4,681	7,564	13,797
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644
1979 NECESSARY PRETAX INCOME	8,511	18,207	27,579	46,659	95,398
Less: Federal income tax	6	1,858	3,627	8,819	27,537
Less: Social security tax	522	1,116	1,404	1,404	1,404
Less: Amount to cover inflation since 1970	3,461	6,613	9,776	15,797	28,813
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644
1980 NECESSARY PRETAX INCOME	9,660	20,187	30,722	52,495	106,785
Less: Federal income tax	286	2,171	4,331	10,826	32,092
Less: Social security tax	592	1,237	1,588	1,588	1,588
Less: Amount to cover inflation since 1970	4,260	8,139	12,031	19,442	35,461
Equals: Income after federal taxes, in 1970 dollars	4,522	8,640	12,772	20,639	37,644

Federal income and social security taxes are computed for a married couple, only one of whom works, with two children. No allowance is made for any other taxes. Calculations use the tax laws in effect each year. Deductible items are assumed to equal 17% of pretax income in 1970, 20% in other years. For calculating maximum tax and earned income credit, all income is assumed to be earned, personal service income. Inflation is calculated from the deflator for personal consumption spending, with a 10% rise assumed from 1979 to 1980.

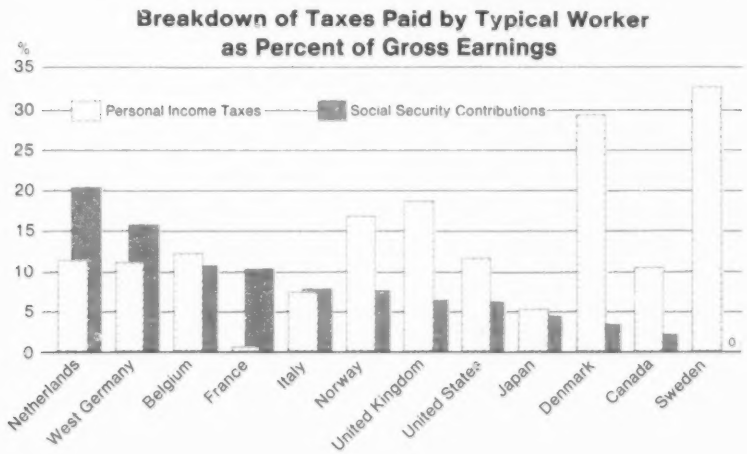


from the OECD help to put U.S. taxes into international perspective. The U.S. runs well behind the other major industrial nations in the ratio of total taxes (business and personal) to national output. The 1978 U.S. figure was 30%, compared with an OECD average of 36% (chart at left). The ratio has been rising over the past decade in all countries, but at different rates: steeply in Scandinavia and Belgium, modestly in France, Japan, Britain and the U.S. However, the preliminary 1978 data suggest a halt, or at least interruption, to the uptrend in many countries. The tax mix varies widely, with sales and social insurance taxes generally more important in Europe.

The OECD has calculated the tax bite on an "average manufacturing worker" in each country, counting local taxes in a representative city in addition to national



*Includes National, State & Local taxes; assumes a married worker with two children, wife not working.
▲Disposable income equals gross earnings minus income and social security tax plus cash transfer received.



taxes. The middle chart panel shows taxes as well as disposable after-tax income, relative to earnings. Disposable income includes transfers such as family allowances, and in countries where these are sizable (Belgium, France, Italy) the result is a relatively high ratio of disposable income to earnings.

Lora S. Collins
Eva Culen

Sources: Bureau of the Census, Bureau of Economic Analysis, Internal Revenue Service, OECD, The Conference Board.

ECONOMIC ROAD MAPS

Eva Culen, Editor Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director
Prices for Quantities of this chart will be supplied on request to Information Service.

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Corporate Profits 1979

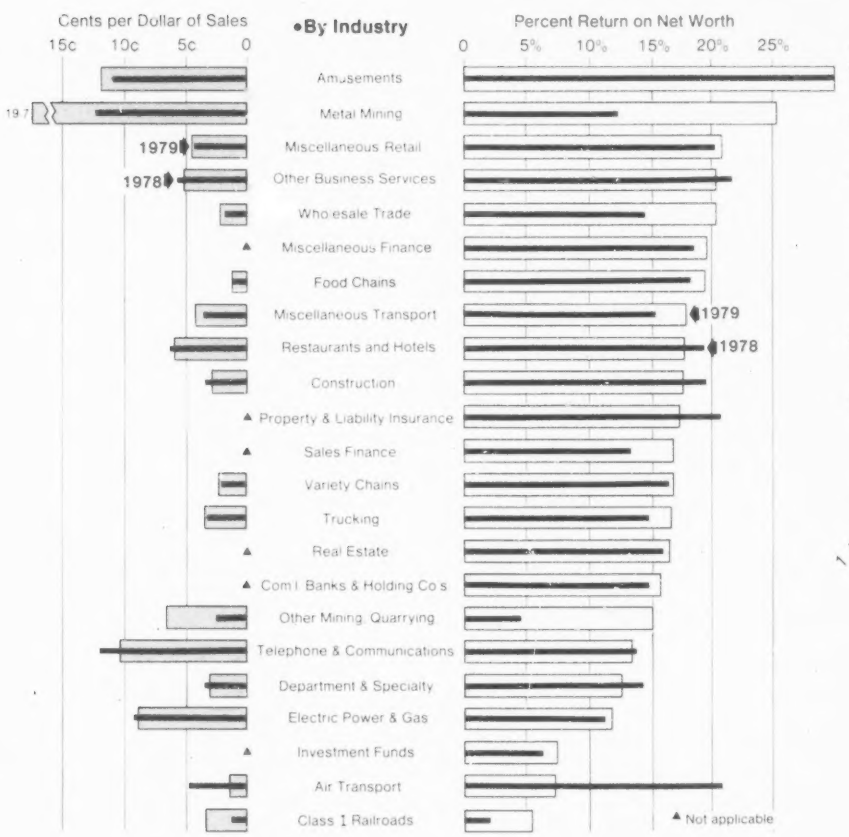
Economic Road Maps
No. 1878

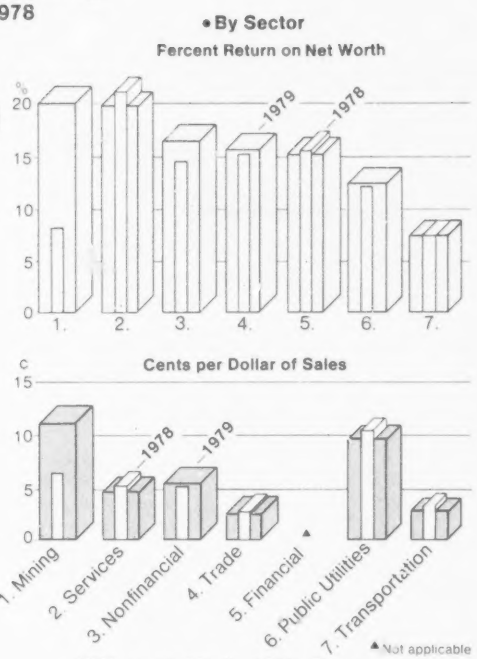
May, 1980

The U.S. economy labored under two major worries last year—the threat of impending recession on the one hand; continued high inflation on the other. Recession failed to materialize and corporate profits rose substantially once again. However, much of this gain was caused by illusory profits due to accounting methods that fail to allow for the high and rising cost of replacing fixed capital and inventories. According to the latest annual Citibank survey, aftertax book profits of leading corporations in 1979 were $122 billion, up $17 billion from 1978.

Profits After Taxes-Nonmanufacturing

Leading Corporations: 1979 vs. 1978





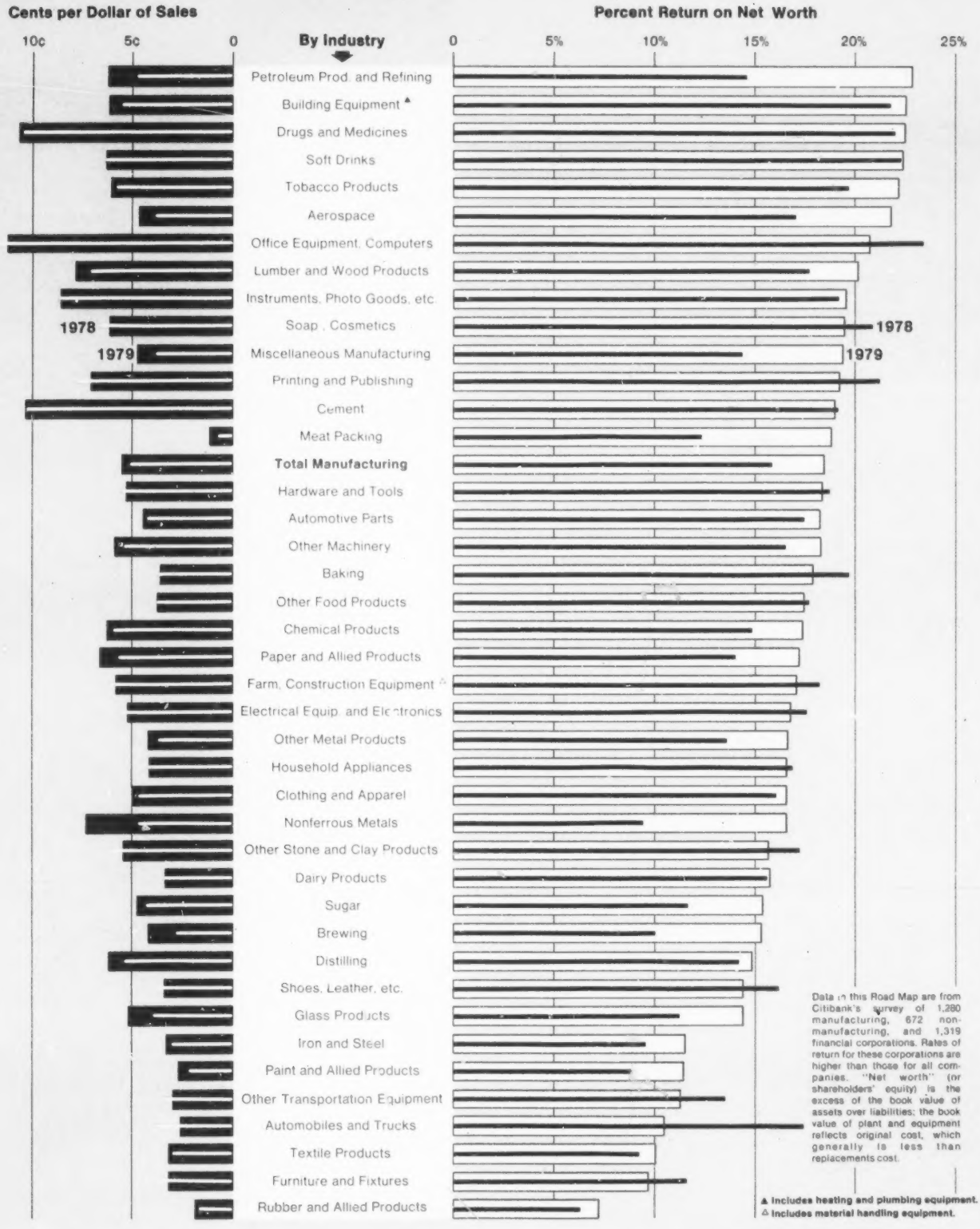
Most industries reported higher aftertax profits in 1979 than in 1978, but by far the largest rise was in the oil industry. Of the $17 billion increase in manufacturing profits, almost two-thirds ($10.7 billion) was in petroleum producing and refining. The 71% increase in oil company profits contrasts sharply with an increase of 13% ($6.2 billion) for the other manufacturing companies. Petroleum companies boosted their rate of return on net worth by more than a half from 14.5% in 1978 to 22.9% in 1979. The overall rate of return for all other manufacturing companies edged up from 16.4% in 1978 to 16.8% in 1979. But a number of other industries had returns on net worth in excess of 22%, including building, drugs, soft drinks and tobacco. Aerospace, computers and lumber topped 20%. Oil companies also boosted their profit margins from 4.8% of each dollar of sales in 1978 to 6.2% in 1979. The computer, drug and cement industries reported margins of over 10% in both 1978 and 1979, and several other industries also had higher margins than the petroleum industry in 1979. Overall profit margins in manufacturing were squeezed during 1979.

Eva Culen

Sources: Citibank; The Conference Board.

Profits After Taxes - Manufacturing

Leading Corporations: 1979 vs 1978



Data in this Road Map are from Citibank's survey of 1,280 manufacturing, 672 non-manufacturing, and 1,319 financial corporations. Rates of return for these corporations are higher than those for all companies. "Net worth" (or shareholders' equity) is the excess of the book value of assets over liabilities; the book value of plant and equipment reflects original cost, which generally is less than replacements cost.

▲ Includes heating and plumbing equipment.
△ Includes material handling equipment.

ECONOMIC ROAD MAPS

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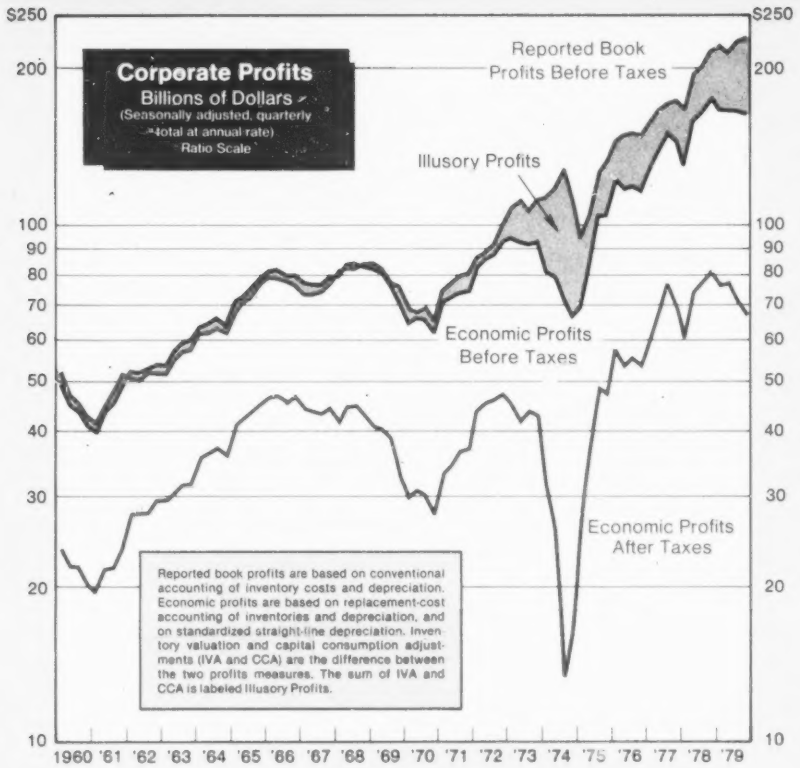
Profit Performance in Perspective

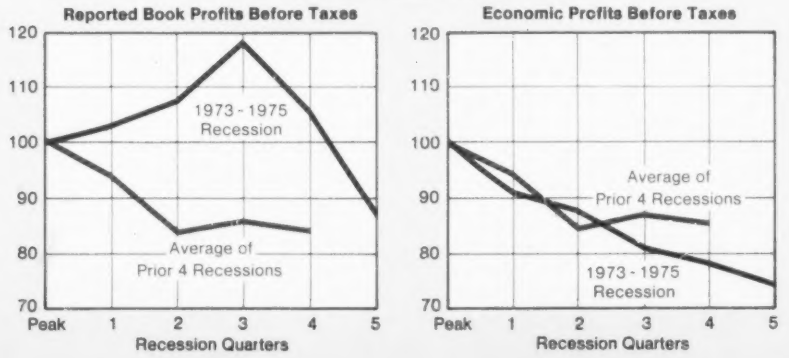
Economic Road Maps
No. 1879 May, 1980

Reported profits from corporate operations in the United States totaled $223 billion in 1979. This was a 14% gain from 1978. But one-fourth of these profits were "illusory," that is, reported as profits under conventional accounting procedures but not really available for payout as dividends or for investment in new capital. Illusory profits arise from accounting that understates the cost of providing for the replacement of the fixed capital and inventories used up in production. "Economic profits," that is, reported profits adjusted to eliminate this undercosting, were $165 billion in 1979, up only 5% from 1978. After taxes, economic profits dropped 1% last year to $72 billion.


Corporate Profits
Billions of Dollars
(Seasonally adjusted, quarterly total at annual rate)
Ratio Scale
Reported Book Profits Before Taxes
Illusory Profits
Economic Profits Before Taxes
Economic Profits After Taxes
Reported book profits are based on conventional accounting of inventory costs and depreciation. Economic profits are based on replacement-cost accounting of inventories and depreciation, and on standardized straight-line depreciation. Inventory valuation and capital consumption adjustments (IVA and CCA) are the difference between the two profits measures. The sum of IVA and CCA is labeled Illusory Profits.
$250
200
100
90
80
70
60
50
40
30
20
10
1960 '61 '62 '63 '64 '65 '66 '67 '68 '69 '70 '71 '72 '73 '74 '75 '76 '77 '78 '79

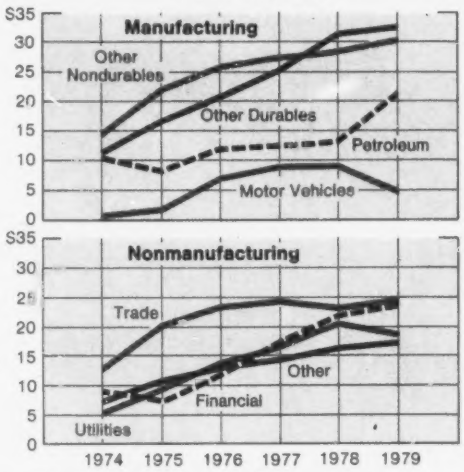
Profits in Recession

100 = Profits at Business Cycle Peak



Recent Profit Trends by Industry*

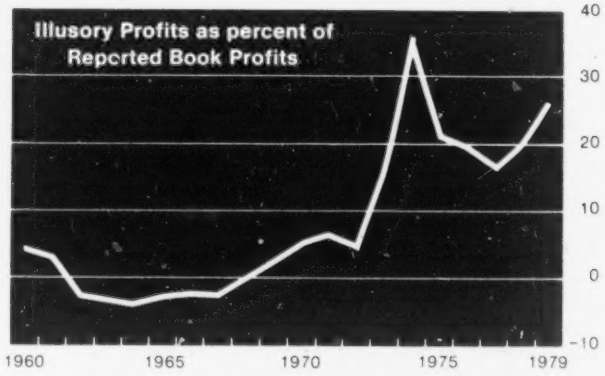
Billions of Dollars

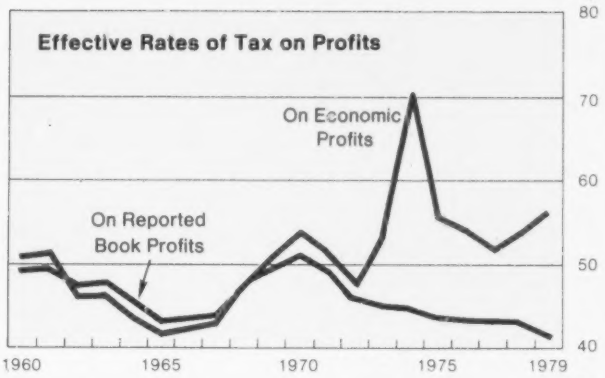


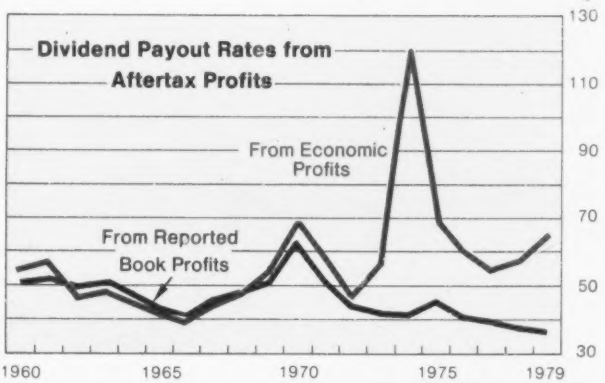
*Pretax profits adjusted to exclude illusory profits from undercosting of inventory, but not adjusted for underdepreciation. Financial excludes Federal Reserve Banks.

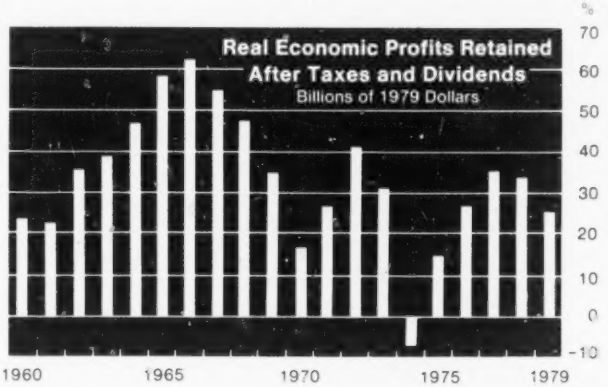
Public awareness of the "illusory profits" issue should increase because more than 1,000 large firms are required to begin this year to report financial data with adjustments for underdepreciation of fixed capital and undercosting of inventories. In an era of high inflation, this alternative accounting of replacement rather than historical costs can have a very big impact on some companies' income statements. The adjustment methods required this year are crude and the results are sometimes ambiguous, but there should nevertheless be a wider realization of the fact that some conventionally reported profits are indeed illusory.

Profits decline in recessions (chart at left). But in the 1973-75 slump, the pattern was defied as reported profits









"Illusory Profits"
(1978 data, billions of dollars)

1. Reported book depreciation	119.8
2. Less: Amount resulting from use of depreciation methods faster than straight-line	32.1
3. Equals: Book depreciation adjusted to straight-line basis	87.7
4. Plus: Amount to put straight-line depreciation onto replacement cost basis	45.2
5. Equals: Depreciation used in calculating economic profits	132.9
6. Net underdepreciation (line 4 minus line 2), or "Capital Consumption Adjustment"	13.1
7. Undercosting of inventories used up in production, or "Inventory Valuation Adjustment"	25.2
8. "Illusory Profits": line 6 plus line 7	38.3

continued to rise well into the recession. The reason is that "inventory profits"—those resulting from undercosting of inventories used up—were rising sharply in the highly inflationary environment of 1974. Economic profits, however, followed the typical recession pattern and declined.

Commerce Department data are used for what are here termed illusory profits. As shown in the table, reported historical-cost depreciation is first adjusted to put it on a "straight-line" basis, i.e., to deduct the effects of any accelerated depreciation formulas used. This is a conservative estimate of true economic depreciation, and it is this conservative figure that is then adjusted from an historical-cost basis to replacement cost. Without this conservative assumption, the estimate of underdepreciation, and thus of illusory profits, would be larger.

Companies are taxed on reported profits. This means that the effective rate of tax on their economic profits is considerably higher than the average tax rate on reported corporate profits. Likewise, the rate of dividend payout from after tax economic profits is considerably higher than the payout rate as conventionally calculated.

It is only after all costs are covered, including the replacement cost of the fixed capital and inventories used up in production, and after dividends are paid, that a company in principle has funds available for new capital investment. These funds—retained economic profits—totaled $25 billion in 1979. This was down 19% from 1978, or more than 25% when account is taken of the fact that a dollar bought less in 1979 than it had in 1978. In terms of their real purchasing power, retained economic profits in 1979 were less than half as large as in the mid-1960s.

Lora S. Collins

Sources: U.S. Department of Commerce, Bureau of Economic Analysis; The Conference Board.

ECONOMIC ROAD MAPS

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International Currencies

Economic Road Maps

Nos. 1880 - 1881 June, 1980

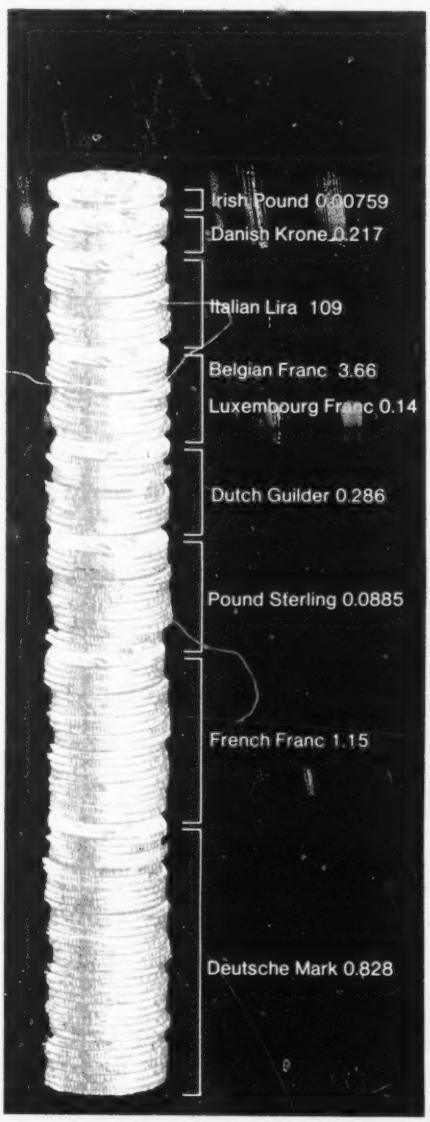
Every nation's currency is the unquestioned monetary standard within national borders: as a medium of exchange and also as a store of value (although inflation undermines that function). At the international level, things become more complicated as payments often involve flows of funds from one currency into another. Historically gold, and later the pound sterling and the U.S. dollar fulfilled the need for a universally accepted standard of value. A variety of international units of account have been created over the years but with scant international success. The two leading examples of such units are the SDR, which is broadly based and widely used at least in international accounting, and the new ECU of the European Community.

SDR Currency Basket

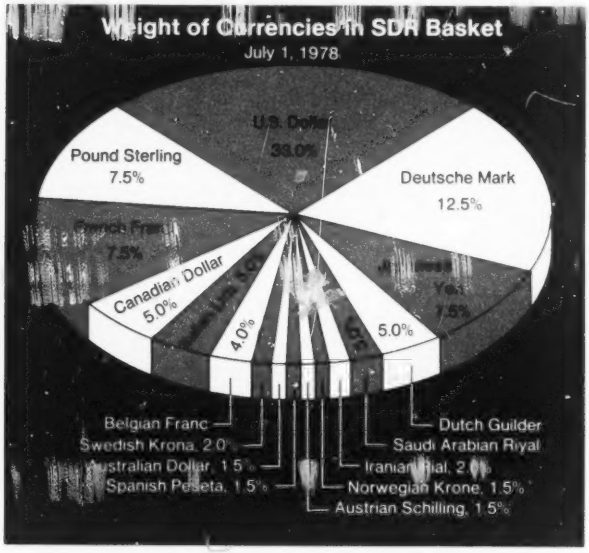
Methods to increase international liquidity in order to ensure a healthy expansion in world trade were at the center of official concern in the early 1960's. The supply of monetary gold could not be expected to grow, as production was stagnating while industrial demand was on the rise. The U.S. balance-of-payments deficit was shrinking, and consequently the dollar's share of international liquidity was not expected to grow at the rate of the earlier postwar years. The result of this concern was the creation of Special Drawing Rights (SDR) by the International Monetary Fund (IMF) in 1969. The SDR is an international reserve asset that is created by fiat and allocated by the Fund to its members. Three initial allocations were made by the Fund between January, 1970 and 1972. But by then the U.S. balance of payments was moving into deficit, with a resulting new abundance of dollars in world financial markets. As a result, no new SDR's were distributed until January, 1979 and 1980—with the final installment to come next January; it will raise the total outstanding SDR to 21.3 billion.

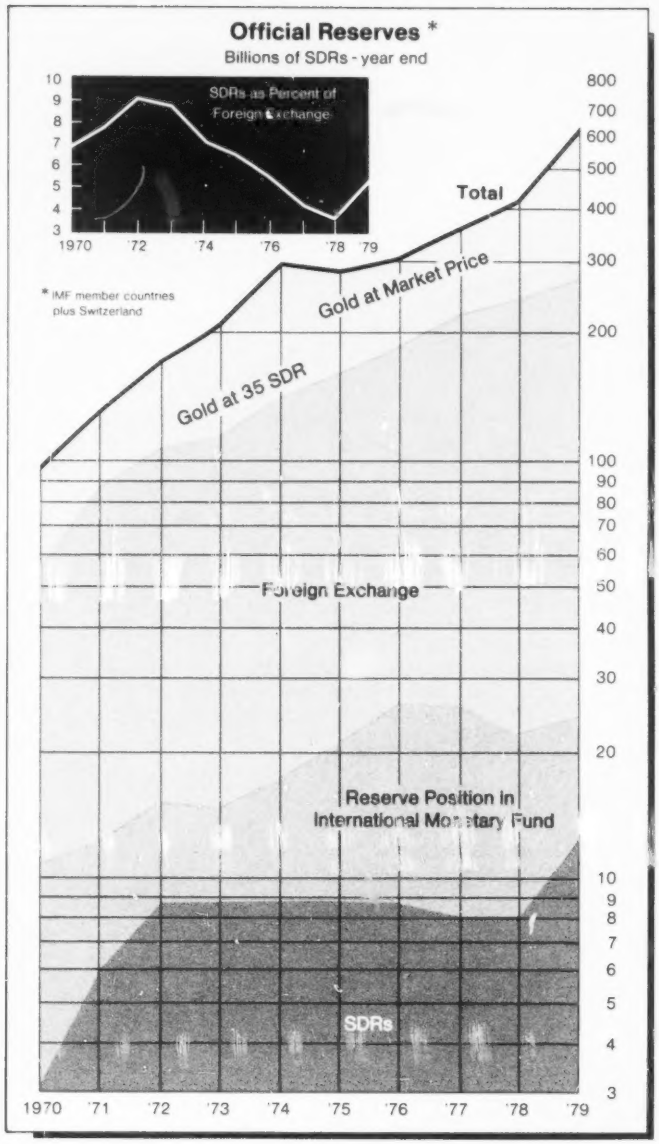
The SDR was launched in January, 1970, at a time of fixed exchange rates, and was at the time set equal to a fixed quantity of gold, specifically, the gold content of the dollar. Thus,

ECU Currency Basket



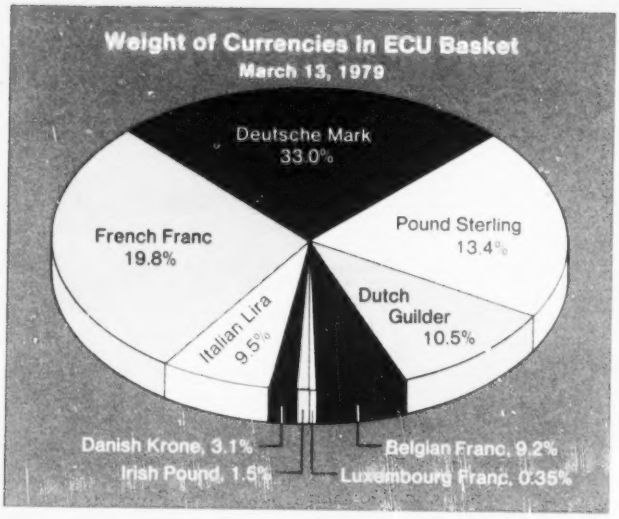
SDR1 equalled $1. Following the break of the gold-dollar link and two dollar devaluations, the SDR continued to be defined in terms of gold, but with gold's official price having risen from $35 to $42.22 per ounce, the dollar value of the SDR was now $1.206. Then on July 1, 1974, the method of valuation was changed to a "standard basket" formula. Under this method of a valuation, the SDR is equal to a total of fixed amounts of 16 currencies, whose weights in the basket have been assigned by international agreement. Currencies of all countries with a share in world exports of goods and services in excess of 1% during the period from 1968 to 1972 were included in the basket. The U.S. dollar was assigned a weight of 33% of the basket, to reflect its financial and commercial importance in international transactions. Lower percentages were assigned to the other 15 currencies in broad proportion to their shares in international trade. A further change in the composition of the SDR occurred on July 1, 1978 when the Danish krone and the South African rand were replaced by the currencies of Saudi Arabia and Iran. The weights were also adjusted in accordance with the 1972-1976 trade figures. The list of countries and weights is to be adjusted every five years.

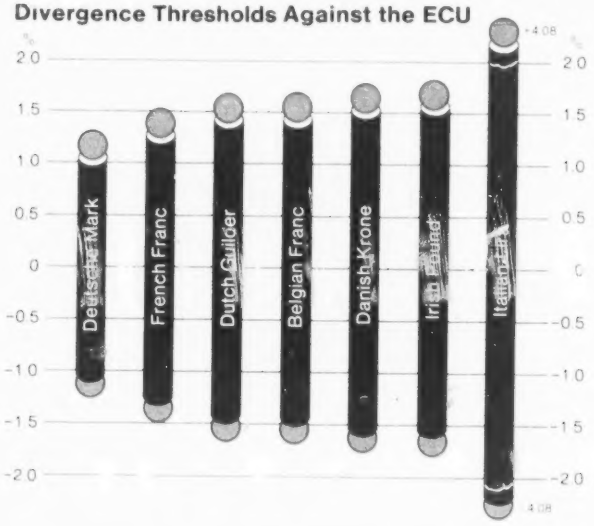



Official Reserves *
Billions of SDRs - year end
SDRs as Percent of Foreign Exchange
Total
Gold at Market Price
Gold at 35 SDR
Foreign Exchange
Reserve Position in International Monetary Fund
SDRs
* IMF member countries plus Switzerland
1970 '71 '72 '73 '74 '75 '76 '77 '78 '79

The SDR is the official unit of account of the IMF, and loans by the Fund are SDR-denominated. Countries can use SDR's when borrowing from the Fund to settle payment deficits. They can also be used to settle obligations without changing them into currencies; they can be lent, and they can be pledged as security for a loan by a central bank or government.

The European Monetary System or EMS came into being on March 13, 1979. Membership consists of the EEC countries with the exception of Britain. Its purpose is to create an expansionary climate for trade and economic growth in the EEC by limiting disruptive foreign ex-



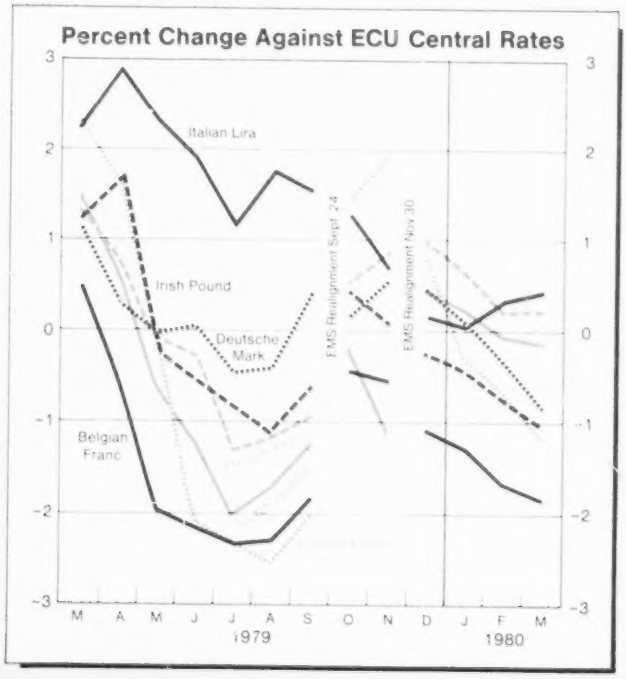


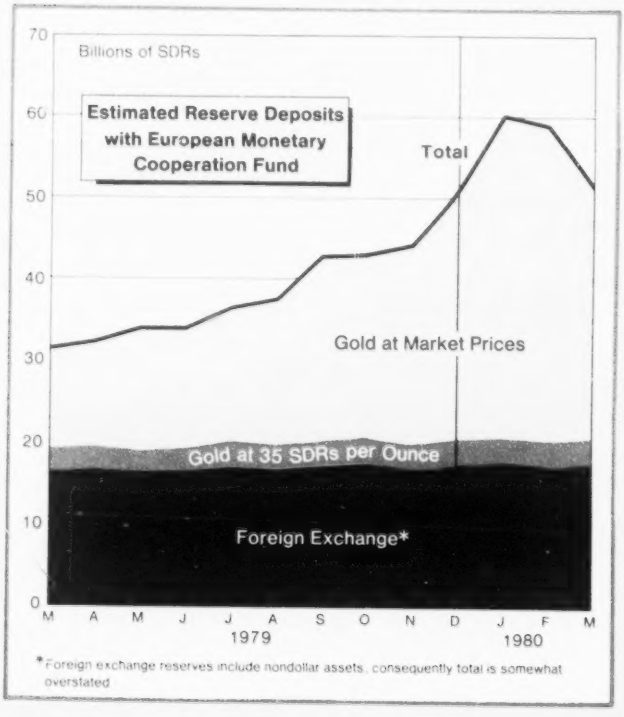
change fluctuations. At the center of the system is the European Currency Unit (ECU). The ECU consists of a basket of EEC currencies, the amount of each currency reflecting the importance of the economy it represents. Britain is not a member of the EMS, but the British pound is part of the ECU. The composition of the ECU can be changed by mutual agreement. It was originaly stipulated that the basket could be revised after a period of six months, and every five years thereafter. In case the weight of any currency has altered by more than 25%, an adjustment can also be made.

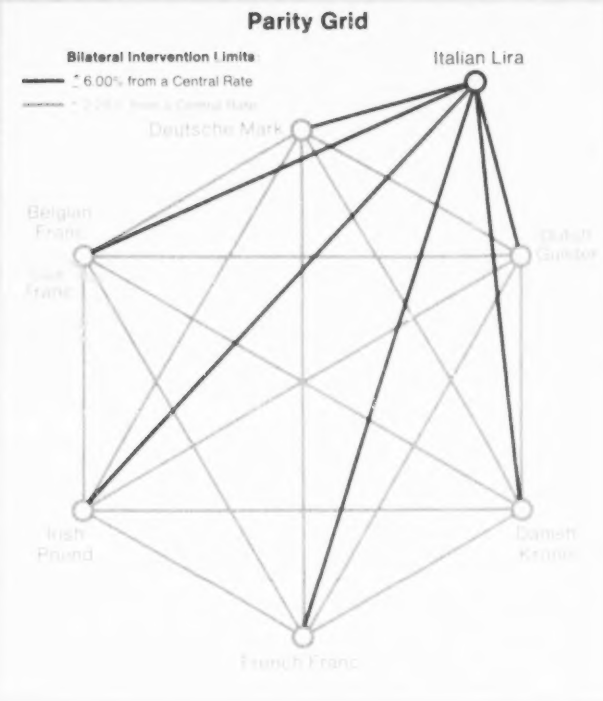
The main functions of the ECU are: (1) to serve as a denominator (numeraire) for fixing central exchange rates for individual currencies; (2) as a basic indicator of whether a currency is "diverging"; (3) as a unit of account for central bank operations in the market; and (4) as a means of settlement between monetary authorities.

All member currencies (excepting the pound sterling) are assigned an ECU-related central rate expressed as a certain quantity of currency per ECU. The linking together of these central rates results in a series of bilateral central rates for each pair of currencies; this constitutes the *parity grid*. Currencies are allowed to fluctuate around these bilateral central rates by a margin of plus or minus 2.25 percent. The exception is the lira, which can move 6% in each direction. When the intervention point between two currencies is reached, the central banks of the two countries concerned intervene in the currency which threatens to exceed the margin.

A further restraint on currency movements is exercised by the *divergence indicator*, which measures the degree of movement of a specific currency against its maximum divergence spread. One has to keep in mind that the ECU-related central rate is a fixed value, while the market rate of the ECU fluctuates, and as a result a currency can be either at a premium or at discount

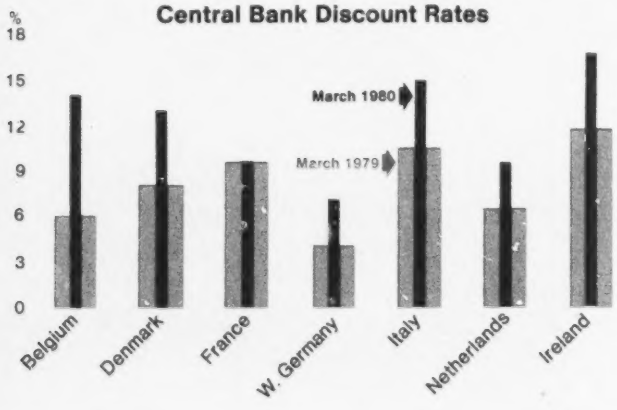


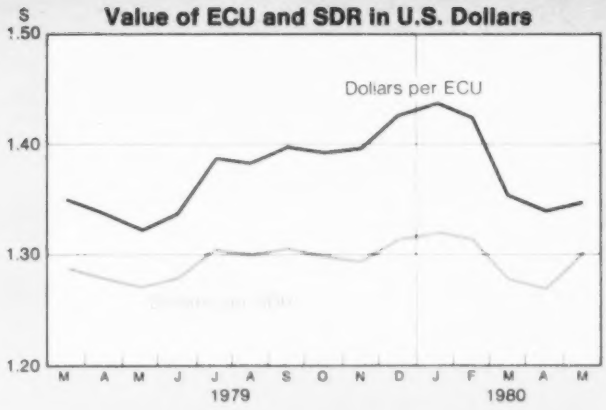

Billions of SDRs
Estimated Reserve Deposits with European Monetary Cooperation Fund
Total
Gold at Market Prices
Gold at 35 SDRs per Ounce
Foreign Exchange*
M A M J J A S O N D J F M
1979
1980
*Foreign exchange reserves include nondollar assets, consequently total is somewhat overstated



against its ECU-related central rate. By calculating the premium or the discount shown by the market rate of the ECU in terms of a currency against its ECU-related central rate and then comparing the results with the maximum divergence spread one obtains the divergence indicator. The divergence indicator is different for each currency, and depends on its weight—the greater a currency's weight, the lower the divergence threshold and vice versa. A currency reaches its divergence threshold when the appreciation or depreciation in the market rate of the ECU in terms of a given currency reaches 75 percent. Once a currency crosses its threshold, there is a presumption (although not an obligation) that suitable measures will be taken by the country's monetary authorities.

The European Monetary Fund, which is to serve as a central bank, is not expected to come into existence until

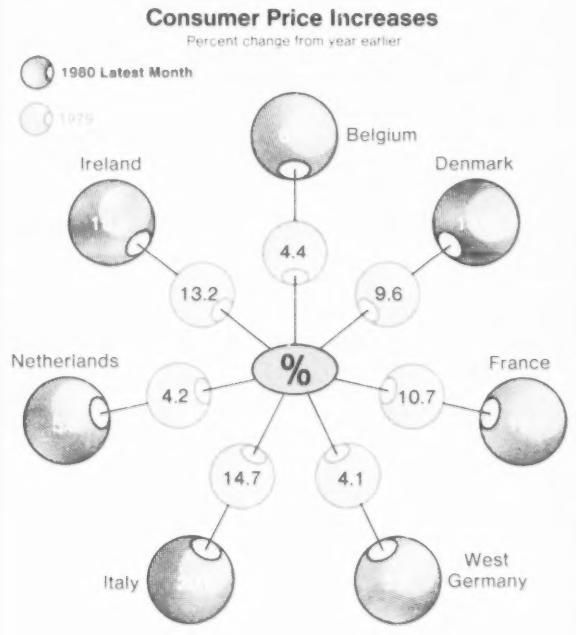




1981 or even later. In the meantime the European Monetary Cooperation Fund "receives monetary reserves from member states and issues ECU's against such assets." The central banks of all participating countries have deposited with the EMCF 20% of their gold and 20% of their U.S. dollar reserves against the issue of ECU's. The gold is valued at the average market price of the previous six months. The transactions take the form of a swap and run for three months. The swap however is only a bookkeeping exercise as each central bank continues to manage the reserves it has deposited with the EMCF.

Eva Cullen

Sources: IMF; Commission of the European Communities; Citibank; The Economist; The Conference Board.



ECONOMIC ROAD MAPS
Eva Cullen, Editor
Chuck N. Tow, Lead Charting
Prepared in The Business Conditions Analysis Department – Lyda S. Collins, Director
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Union Membership

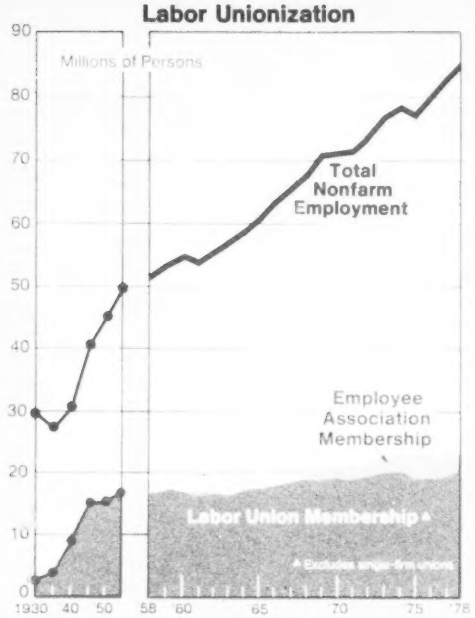
Economic Road Maps

No. 1882

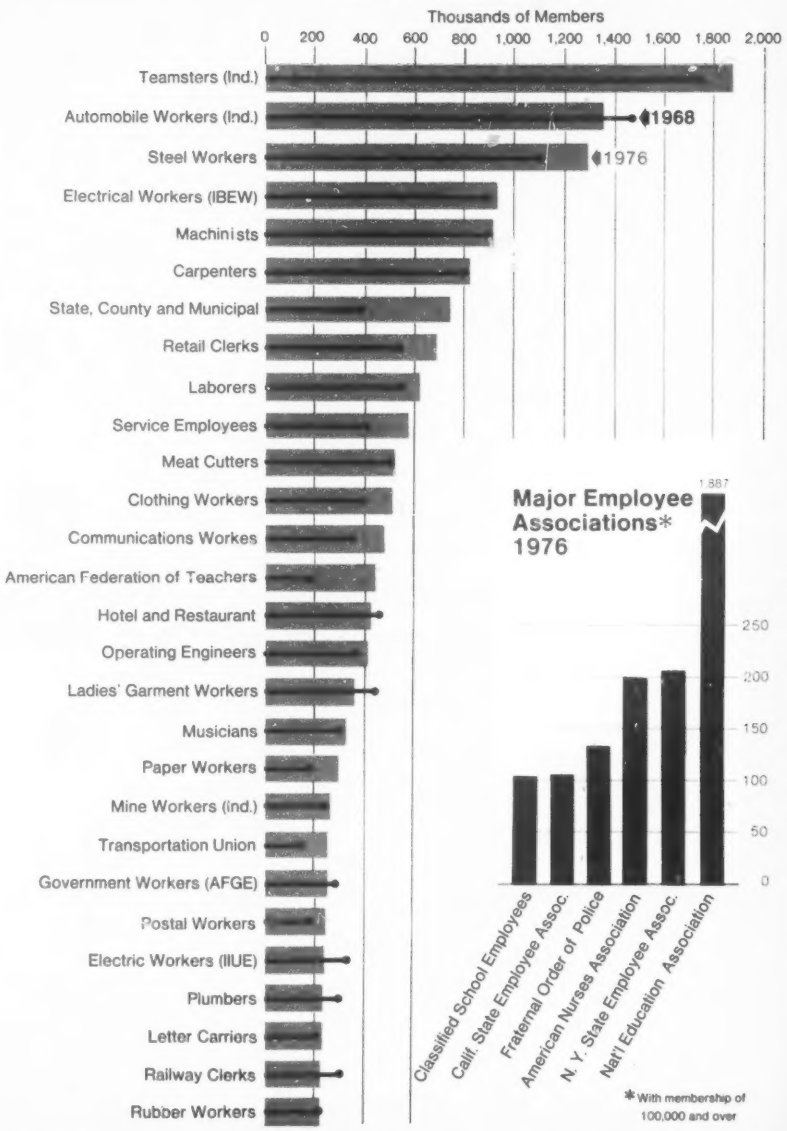
July, 1980

Union membership has not kept pace with employment. The number of workers represented by a union or an employee association reached a peak of 30% of nonagricultural employment in 1970. The figure had declined to 26.5% by 1978—the latest year for which data are available. Even the absolute number of union-represented workers has been eroding since 1974. Unions historically have been strongest among blue-collar workers in manufacturing, but the sectors of the economy that have been generating employment growth in recent years have typically been outside manufacturing. Moreover, such growth has been centered in white-collar jobs, where worker orientation to collective bargaining has not been strong.

Labor Unionization



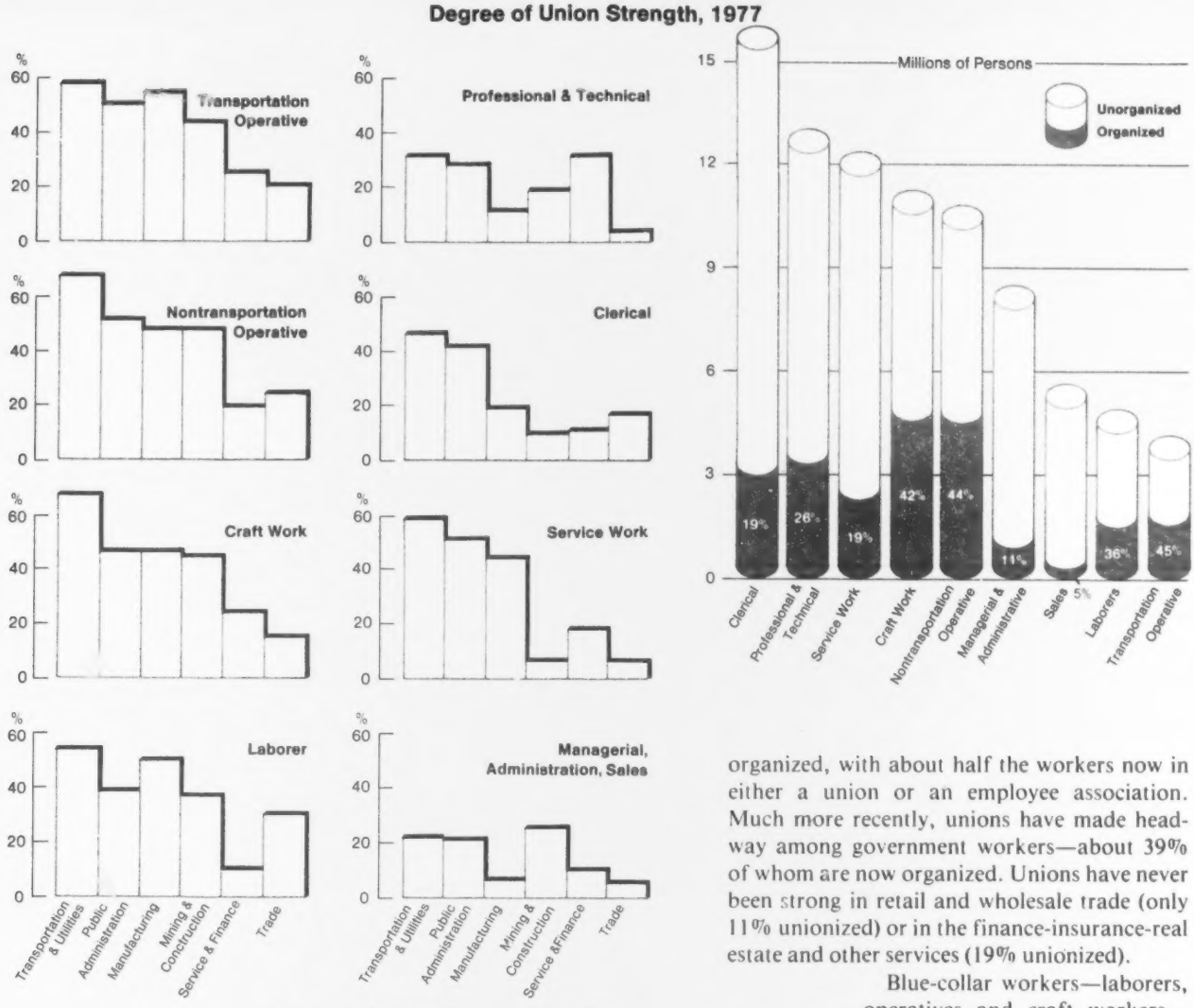
Largest National Unions, 1976



Major Employee Associations* 1976

The labor movement in the United States dates from the formation of unions among plumbers, carpenters, garment workers, and so forth late in the last century. And the core of the movement today is still to be found in unions representing blue-collar workers in manufacturing, construction and mining. Approximately 38% of all employees in those industries are organized under collective bargaining agreements. The transportation industry became heavily unionized earlier in this century; today, about 60% of employees in this sector are covered by union contracts. Somewhat later, communications and public utilities became heavily

Degree of Union Strength, 1977

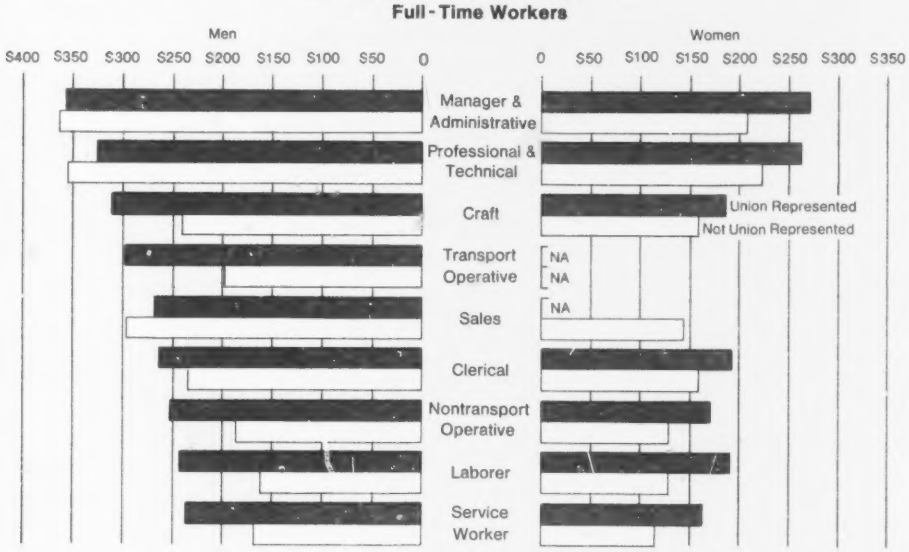


organized, with about half the workers now in either a union or an employee association. Much more recently, unions have made headway among government workers—about 39% of whom are now organized. Unions have never been strong in retail and wholesale trade (only 11% unionized) or in the finance-insurance-real estate and other services (19% unionized).

Blue-collar workers—laborers, operatives and craft workers—are the most heavily organized, although the degree of union strength in these occupations varies from industry to industry. (The name of the union often has little to do with the kind of worker the union represents. Examples of this abound: Teachers in Oklahoma City and sanitation workers in Chicago or Birmingham belong to the Laborers Union.) Unions have been least successful in organizing service workers, clerks, sales workers, managers and administrators.

Ken Goldstein

Average Weekly Earnings, 1977
Full-Time Workers



Sources: Bureau of Labor Statistics; The Conference Board.

ECONOMIC ROAD MAPS

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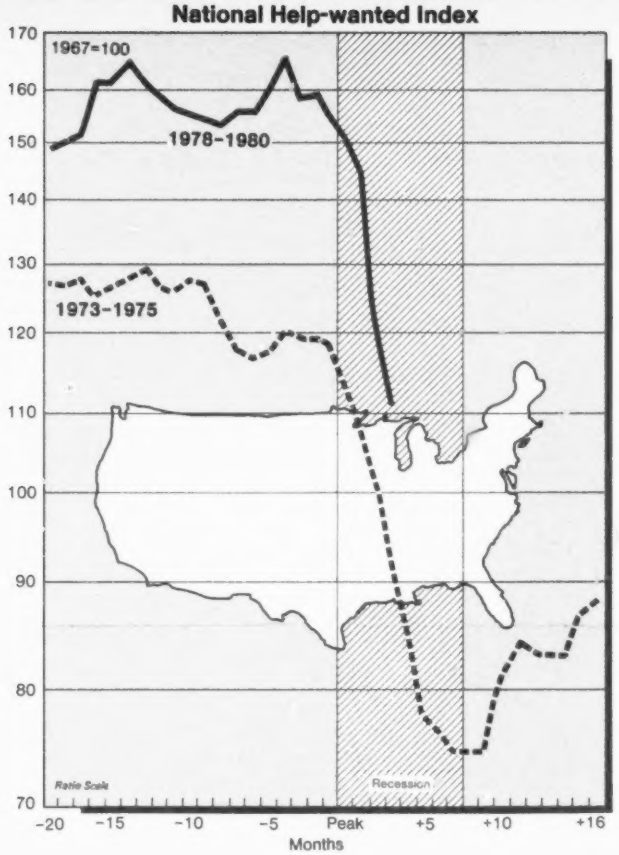
Cyclicality in Help-wanted Advertising

Economic Road Maps
No. 1883 July, 1980

The employment and unemployment data generated by the Bureau of Labor Statistics are aimed at measuring the demand for jobs. However, there are few data available to quantify the supply of job openings. One of the most reliable sets of data to serve that function is The Conference Board's series on help-wanted advertising. These figures measure the number of classified help-wanted ads in major cities around the country.

Job advertising is an initial step in the hiring process (although not every job is advertised, nor is every opening filled via a newspaper ad). Therefore, help-wanted ad volume is a barometer of business plans for the production of goods and services. Specifically, as orders decline, businesses curtail employment advertising before making the weighty (and costly) decision to lay off workers. That makes help-wanted advertising a leading indicator of peaks in the business cycle.



The economy is in the midst of the seventh recession since World War II. (Since the Help-Wanted Index dates from 1951, there are no data for the 1949 recession.) In the relatively mild recessions of 1960-1961 and 1969-1970, the drop in help-wanted volume was rather moderate. In 1953-1954 and 1957-1958, both the overall recessions and the help-wanted ad declines were more severe. The ad index dropped very sharply in the steep recession of 1974-1975 and has been falling rapidly again this year.

Help-wanted advertising data are collected in 51 major labor markets throughout the country. Totals are calculated for each of the nine census-designated regions, as well as for the whole nation. The Northeast and Midwest have typically had much sharper declines in want-ad volume than other regions, except the Pacific. These regions have always had heavy concentrations of durable goods industries—such as steel, autos and metal processing. The durability of their products means that replacement can be postponed, and that is precisely what occurs when economic activity slows down. Hence, these are the industries that undergo the "boom and bust" of the business cycle, and this is an important factor in making the Northeast and Midwest cyclically sensitive. However, shifts of population and industry have diffused the concentration of cyclically sensitive industries to some degree. This is one reason why New England and the Middle Atlantic were not quite so sharply affected in the 1974-1975 recession as in earlier ones. On the other hand, some parts of the South as well as the Mountain region appear to have become more sensitive to swings in business activity. Since these regions are high growth areas, construction (another cyclically-sensitive process) has become a significant part of their economies.

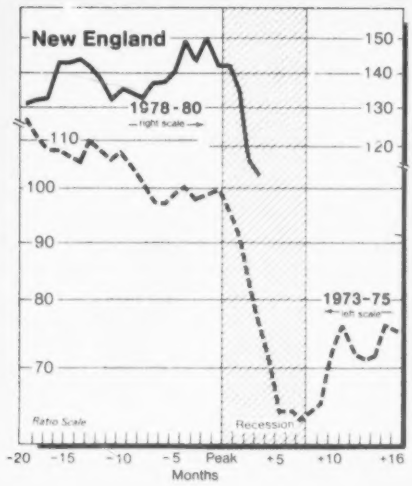
The Pacific has been a high-growth region through most of the post-war era. Construction, then, is important in the regional economy. Also, the region contains some very cyclically-sensitive industries such as aircraft construction, forestry, aluminum smelting, and mining. Moreover, the region has considerable defense-related industry, which is prone to "boom and bust" swings in activity due to the pattern of development funding.

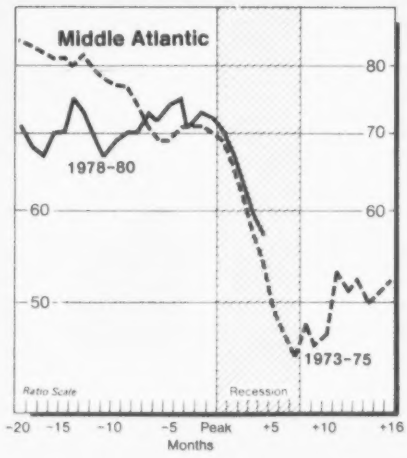
Ken Goldstein

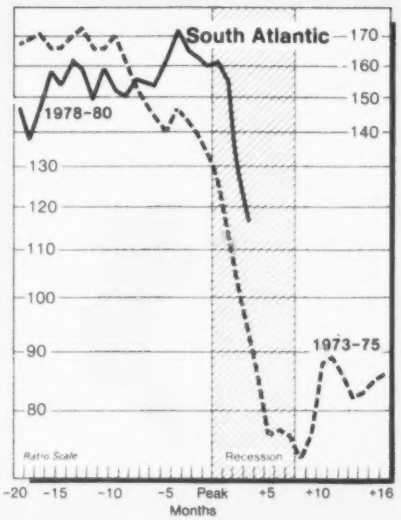
Source: The Conference Board.

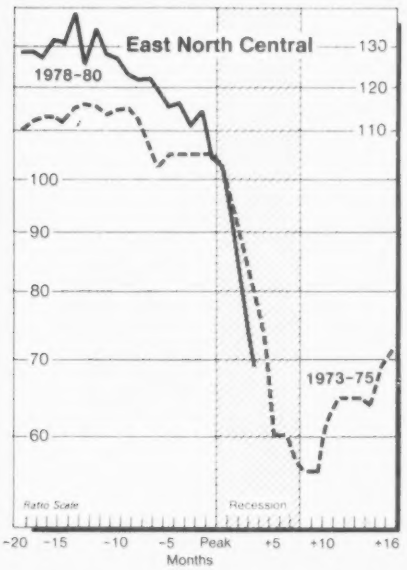
Regional Trends in Help-wanted Advertising

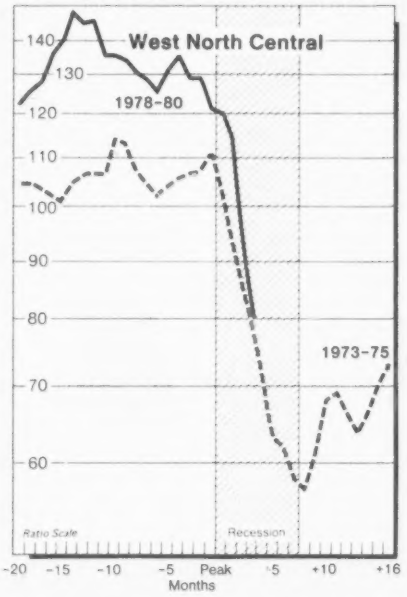
Help-wanted Index

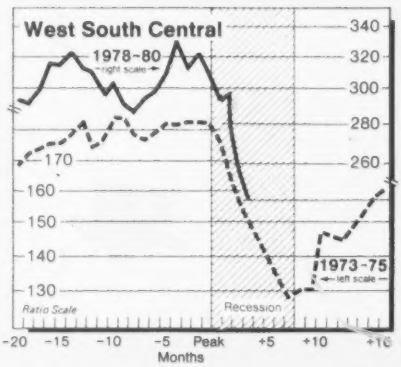


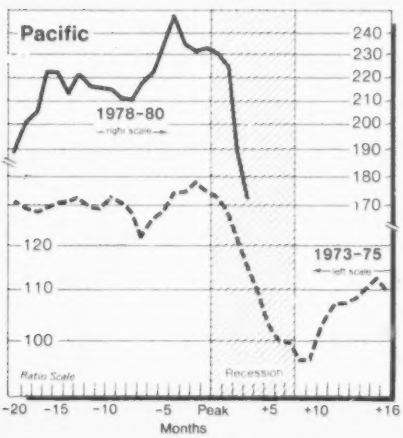


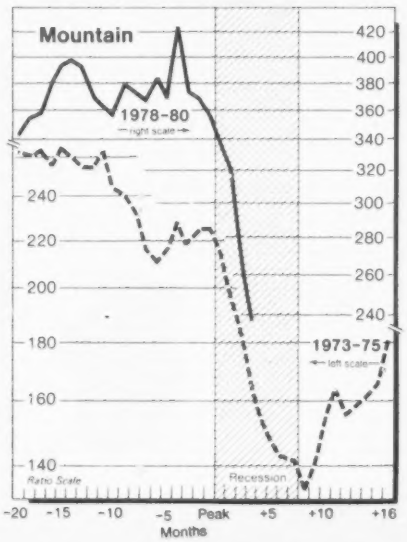


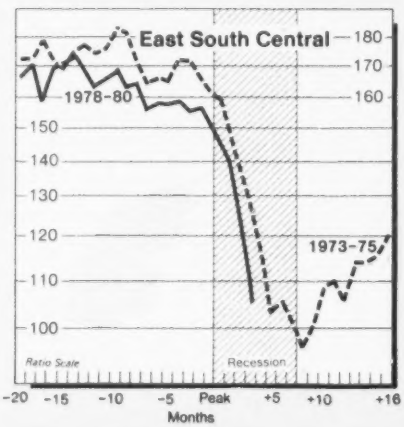












ECONOMIC ROAD MAPS

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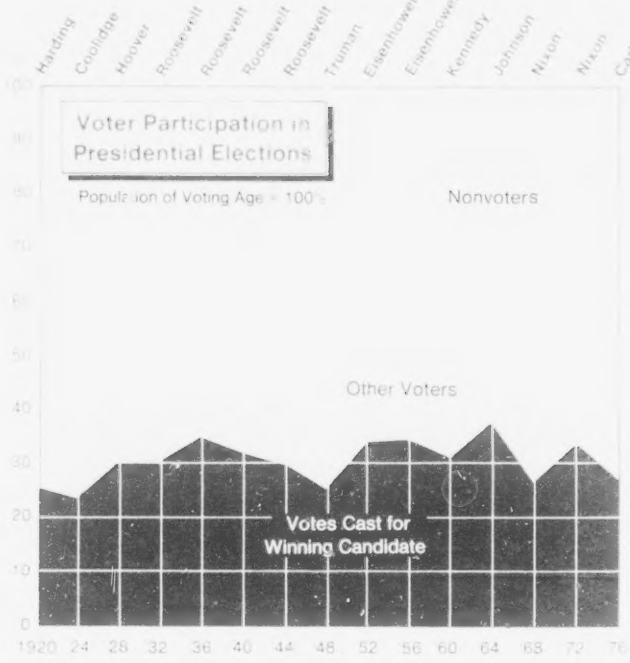
Presidential Elections U.S.A.

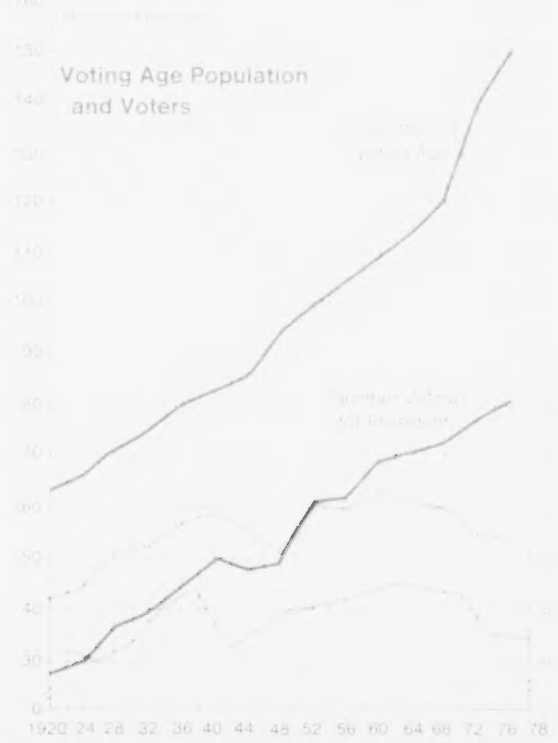
Economic Road Maps
Nos. 1884 - 1885 August 1980

Political office holders at every level of government in the United States are elected by popular vote. Voters are thus called upon to cast ballots frequently, and elect a variety of officials—president; senators and representatives (both federal and state); governors; judges; coroners; town council, and school board members; county sheriffs; and so on. But in spite of this wide-ranging responsibility placed in the hands of the electorate, voter turnout has been much lower in this country than in most other democracies. The Constitution specifies that the President and Vice President are elected by Electors, who are chosen by popular vote in each state in a number equal to the state's members of Congress. Should none of the candidates receive a simple majority of the Elector's vote, the House of Representatives elects the President with each state having one vote. This has occurred only once—in 1824—but is spoken of as a possibility this year.



Voter turnout continues to lag in spite of the length of the presidential campaign, the steadily increasing number of states holding primary elections, the media exposure, the vast sums of money spent by the candidates, and the reform of the registration system in the 1960's in order to stimulate participation. The 1976 Presidential elections attracted 54% of the voting-age population; two years later (a non-presidential year) only 35% voted. This means that some 60 million eligible individuals in 1976, and 82 million in 1978, failed to cast a ballot.

Change in the age distribution of the electorate has contributed significantly to the decline in voter participation. The 26th Amendment to the Constitution, ratified in 1972, lowered the voting age from 21 to 18. This added approximately 11 million young people to the voting-age population. Previously, the voting-age population included only persons aged 21 and over, except in a few states where the voting age was lower. The voting age population grew by about 5 million people between presidential election years during much of this century, but between 1968 and 1972 the number of potential voters rose by some 20 million. In addition to the lowering of the voting age, the coming of age of the baby boom generation contributed to this sudden bulge in the electorate. Because young people tend to vote in a much smaller proportion than do older ones, this shift resulted in lower overall participation rates.



Electoral Votes Cast for President by Major Political Parties, 1948 - 1976

1976
Carter

HAWAII
Washington, D.C.

1968
Nixon

HAWAII
Washington, D.C.

1948
Truman

Democratic

Unpledged or
Other Parties
1968 - American
Independent

1964
Johnson

ALASKA
HAWAII
Washington, D.C.

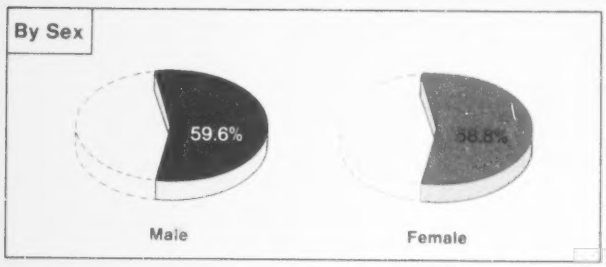
1960
Kennedy

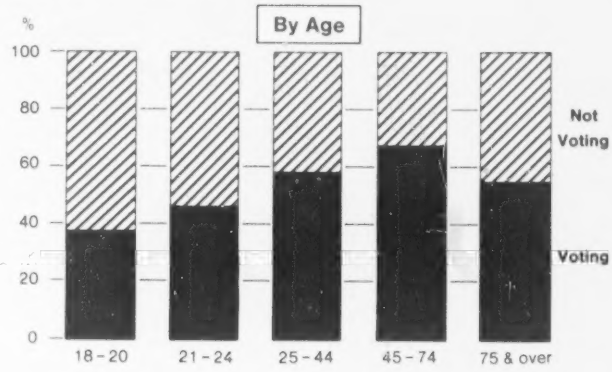
HAWAII

1956
Eisenhower

Who Voted in The 1976 Election

Percent of Civilian Noninstitutional Population of Voting Age



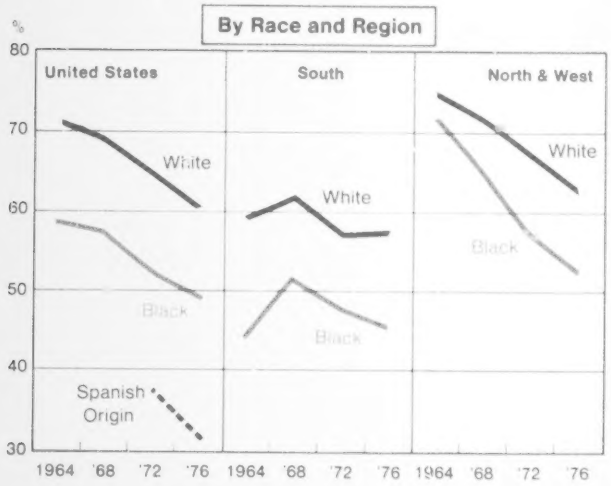


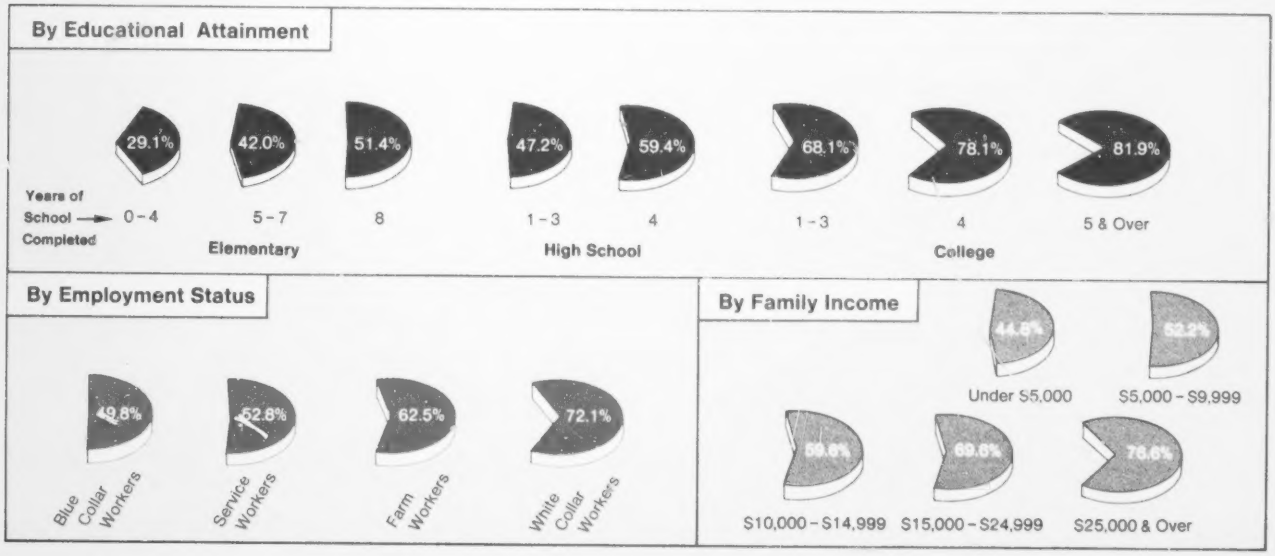
Historically, voter participation in the United States has been fairly low; the first time more than one-half of the eligible population voted was in 1928, eight years after universal suffrage was established. The high point of voter participation was in 1960, when 63% of the population voted—31% casting a ballot for the winning candidate. But as in all other Presidential elections, the plurality was held by nonvoters, as 37% of the voting-age population did not vote. Voter participation has declined in each election since 1960. And the number of persons voting for the winning candidate has, in every instance, been less than the number of persons not voting at all.

The Census Bureau estimates that there will be 160 million persons of voting age this November. Not all are eligible to vote—aliens, prison inmates, the mentally incompetent are all excluded from the electoral process. Since U.S. voter-turnout percentages presented here are based on the total population of voting age, the United States suffers somewhat in comparison with other countries where turnout is calculated on the number of registered voters. Also, the U.S. system leaves registration up to the individual (less than 70% in 1976), who is not obligated to register. In most other western countries, the government is responsible for maintaining the register of electors, and some countries have made voting compulsory, with failure to vote punishable by a fine.

What are some of the main characteristics of the American voter, and how have they changed over time?

Voting participation has been declining among both men and women. In 1964, turnout was much higher for men but by 1976 they were approximately equal at about 60 percent. As there are more women than men in the eligible population, there are more women voters.



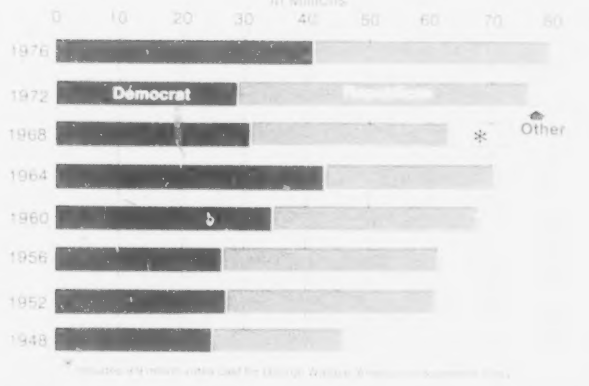


Voter Turnout in Presidential Elections

Voting turnout for both whites and blacks in 1976 was about 10% below their respective levels in the 1964 election, and for persons of Spanish origin it was 6% below that of 1972, the first year in which figures were tabulated for that group. There will be approximately 141 million whites and 17 million blacks as well as 3 million persons of other races of voting age this year.

Popular Vote Cast for President

1948-1976



(The Spanish-origin population of voting age, which includes both whites and blacks, was estimated at 7.1 million in March 1979.) Both blacks and other minority races are increasing their share of the voting-age population.

A considerable shift of voting-age population from the Northeastern and North Central States to the South and West has taken place since the last Presidential election. The number of voting-age people should be about 9 million higher in the South and West in 1980, while the Northeastern and North Central States are expected to add 5 million to the rolls.

Past experience shows that voting is closely related to socioeconomic status. Thus, the more education a person has, the more likely he or she is to vote. By the same token, persons in white-collar occupations and those with incomes of $25,000 and over have the highest turnout rates. Although overall black turnout has been considerably lower than that of whites, the difference shrinks considerably when differences in education and other socioeconomic characteristics are allowed for. Thus, college-educated blacks are as likely to vote as college-educated whites, and whites with little formal schooling are as unlikely to vote as are similar blacks.

Eva Culen

Sources: U.S. Department of Commerce, Bureau of the Census; The Conference Board.

Voter Turnout in Most Recent General Elections

Selected Countries

Percent Voting	Country
90-100	Italy, W. Germany, Austria, Sweden, Luxembourg
80-90	Belgium, Netherlands, France, Denmark, Portugal, Spain
70-80	Japan, U.K., Ireland
60-70	Canada
50-60	India, Switzerland, U.S. (Presidential)
40-50	
30-40	U.S. (Congressional)

ECONOMIC ROAD MAPS

Eva Culen, Editor — Chuck N. Tow, Lead Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director
Prices for Quantities of this chart will be supplied on request to Information Service.

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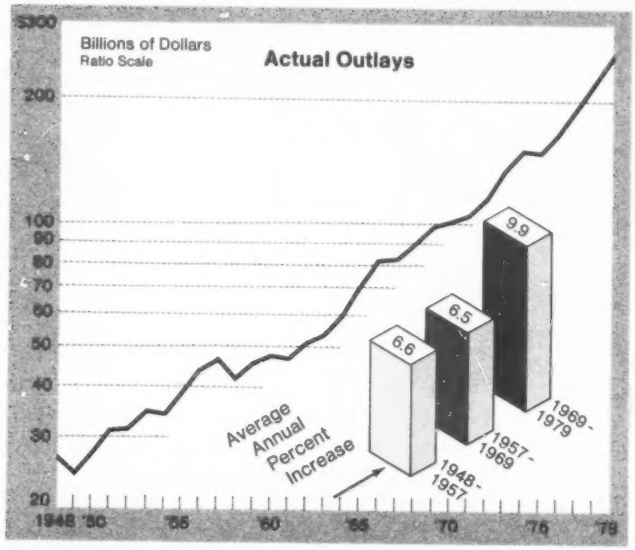
Capital Investment in Perspective

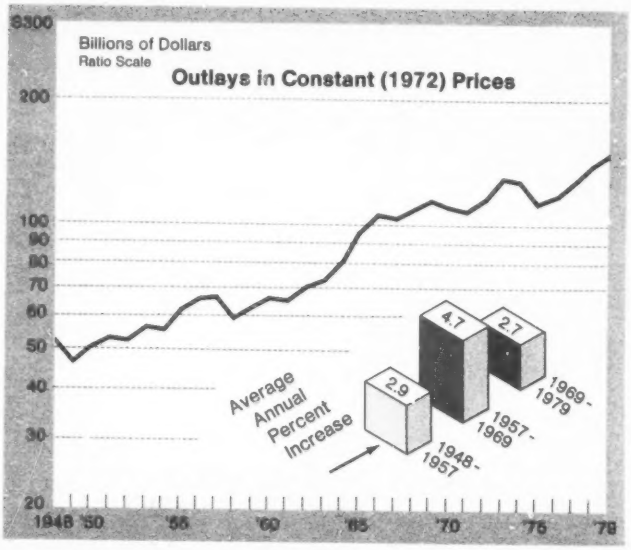
Economic Road Maps
Nos. 1886 - 1887

September, 1980

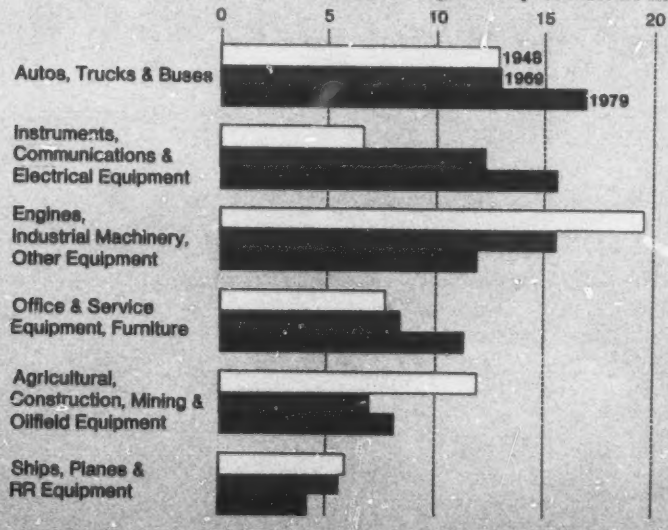
Most of the output of the U.S. economy is used up, or "consumed," not long after it is produced. That part of the national output that is not consumed consists of investment goods—structures and equipment that will be employed in the production process over a period of years and thus be used up only gradually. The amount of investment that our economy makes in equipment and structures today is a key determinant of our ability to produce a rising total volume of goods and services in the future, and to keep a growing labor force productively employed. Capital investment increased very rapidly in the 1960's, then shifted to slower growth in the past decade. Proposals to stimulate capital investment are being widely discussed this year, with particular emphasis on tax measures aimed at making investment more attractive financially.

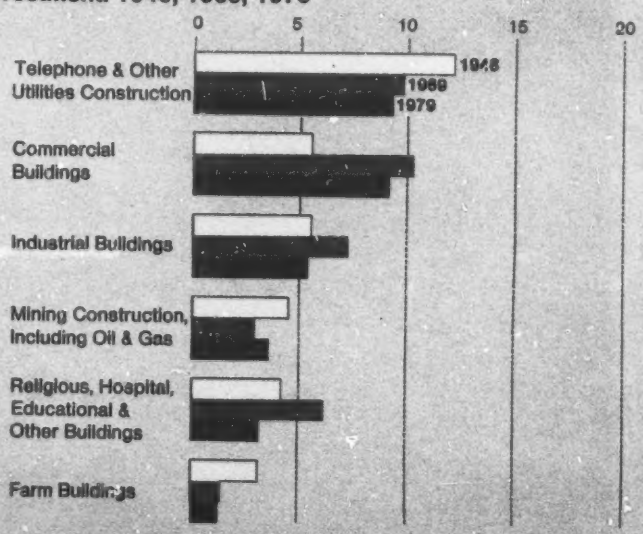
Private, Nonresidential Fixed Investment

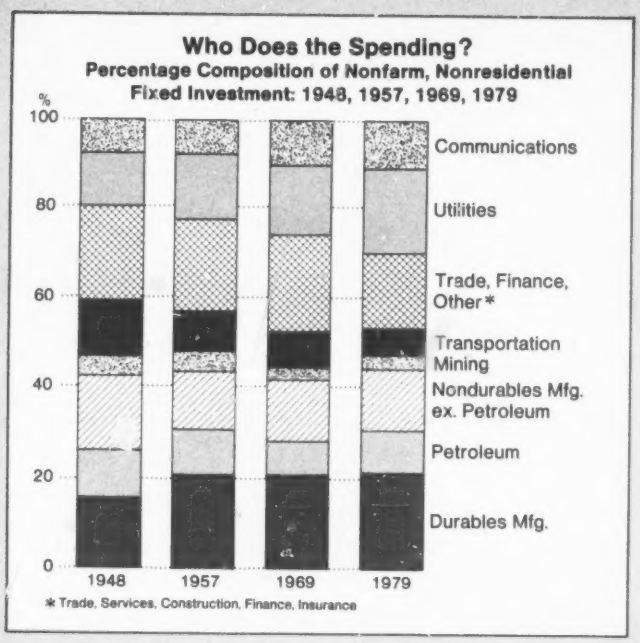




Percentage Composition of Investment: 1948, 1969, 1979

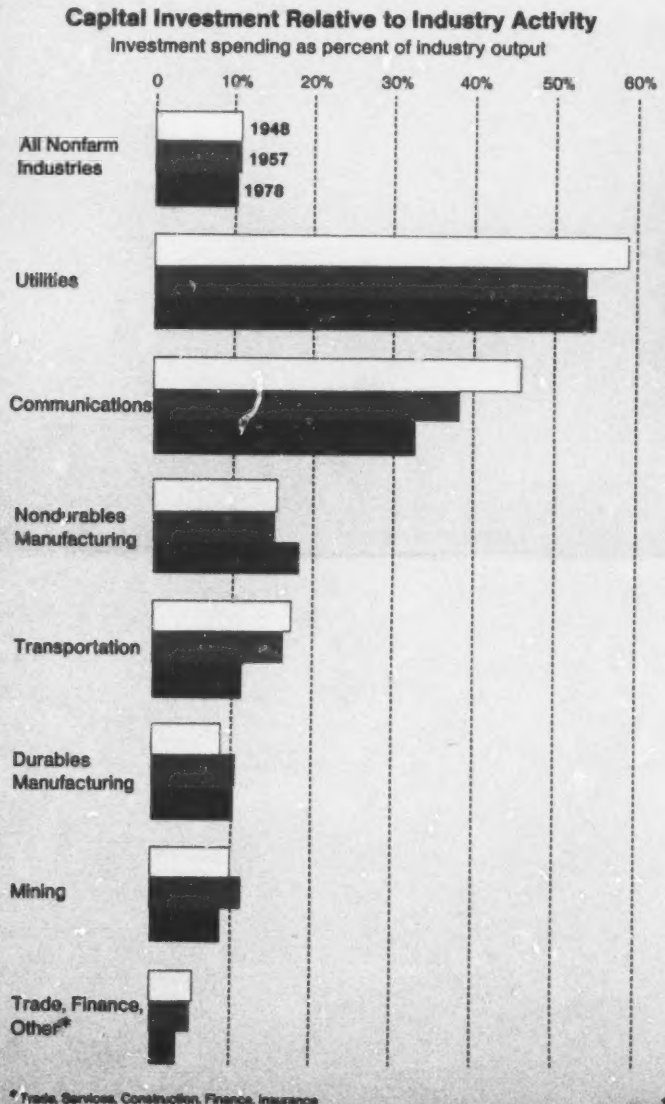


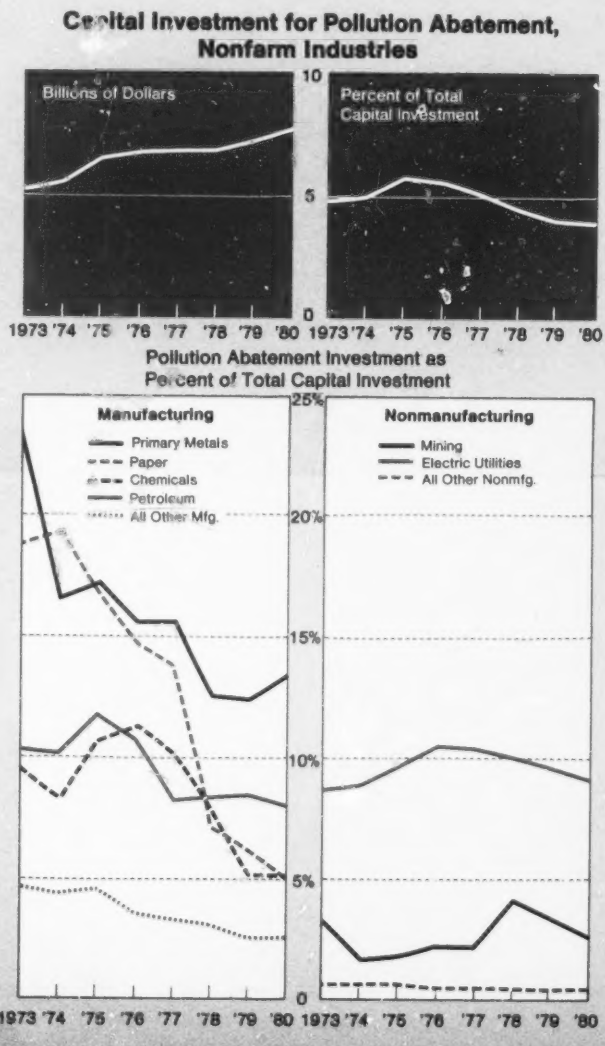


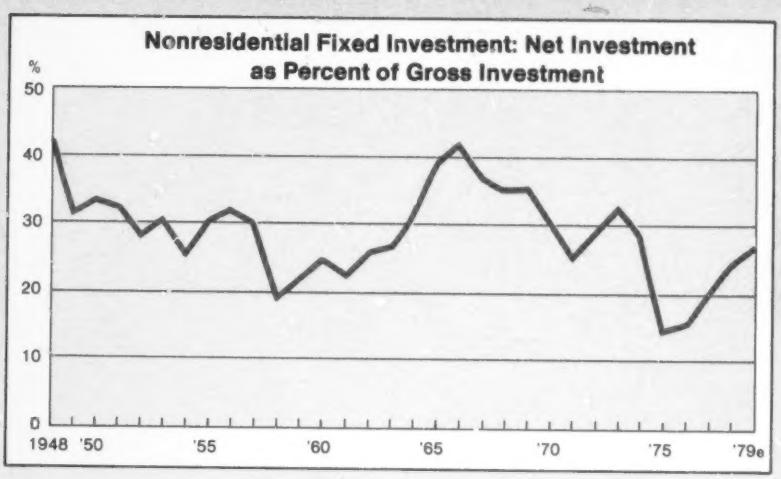


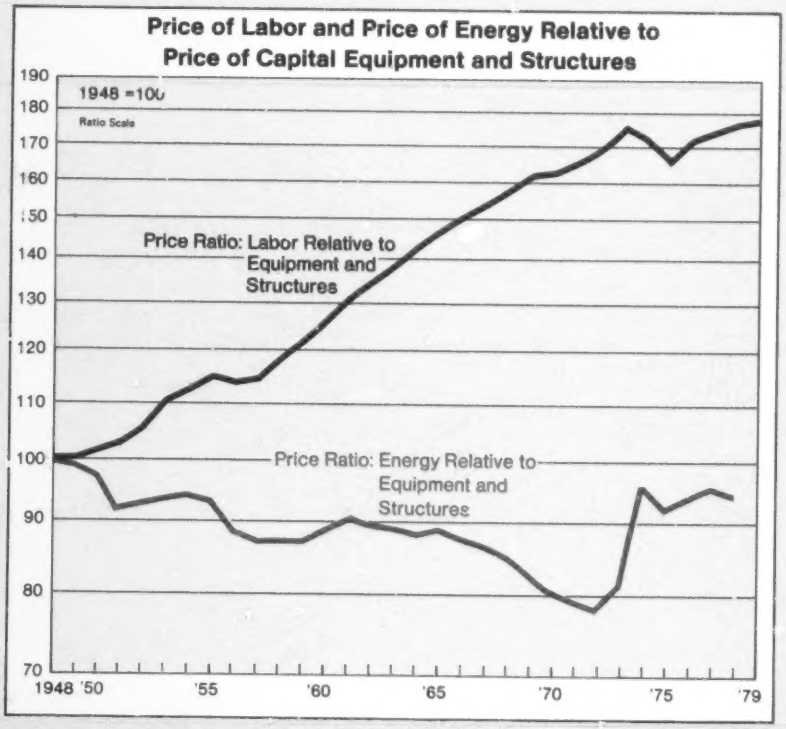
Private investment in equipment and nonresidential structures totaled $255 billion last year. (New housing, on which outlays last year were $114 billion, is also investment but is not considered here.) Autos, trucks and buses are currently the largest single major category of investment, comprising 17% of outlays in 1979 (lower chart on page 1). Industrial machinery accounted for only 12% of total outlays last year; 20 years ago, this category was 20% of total spending.

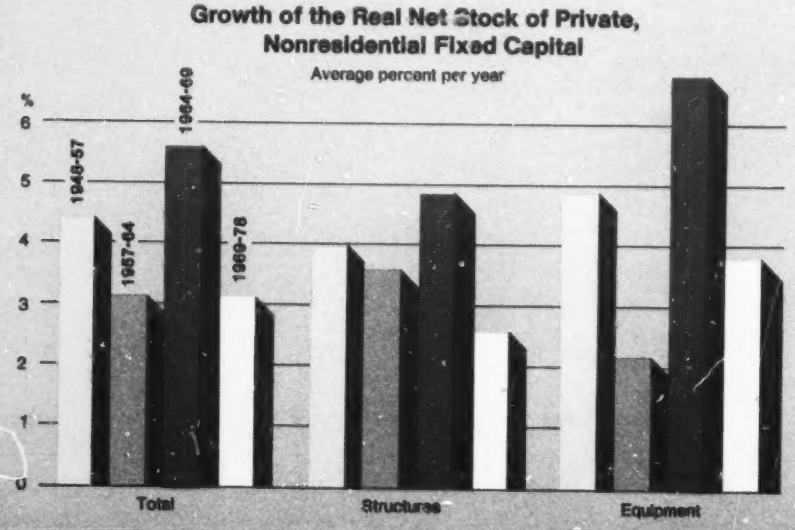
Durable goods manufacturing is the biggest capital spender among the major industries. Last year, durables manufacturers accounted for 21.5% of nonfarm, nonresidential investment spending; the utilities were next, with 18.5 percent. (See chart at left. The years used in that chart, and in the calculation of averages and growth trends, are peak years of the business cycle. This choice of years minimizes cyclical fluctuations in the data.) Although the utilities rank only second in share of total capital outlays, they are far in the lead when their capital spending is compared to their overall activity. The lower left panel shows that in 1978 (the last year for which suitable data are available), the











Average Ratio of Net Investment to Gross Investment

Percent

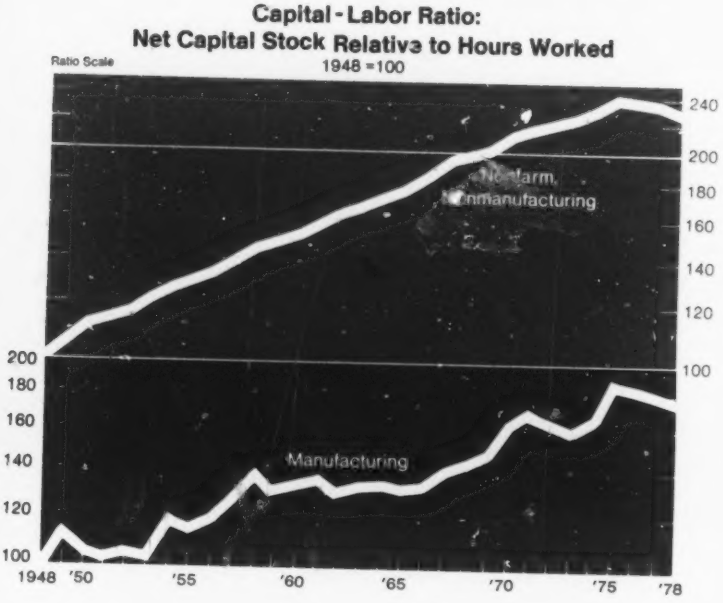
	1948-1957	1958-1964	1965-1969	1970-1979
Total	31.6	24.6	37.7	24.9
Structures	37.6	38.9	46.7	32.0
Equipment	27.1	13.7	31.9	20.9

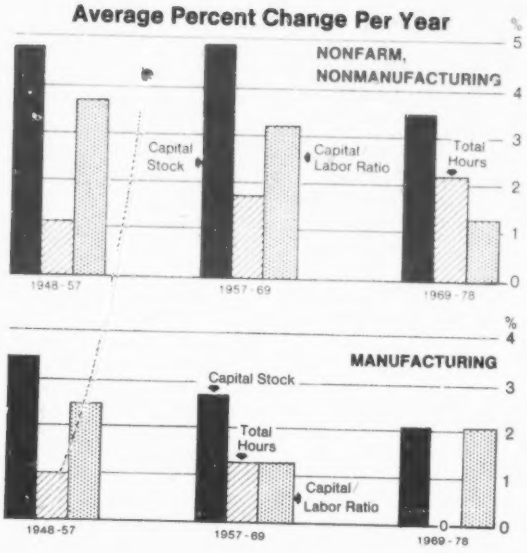
utilities' capital investments were equal to 55% of the value of the industry's output. The figure was 32% for the communications industry, in which telephone companies are a major element, but considerably lower in less capital-intensive industries. (An industry's output is measured here as its "value added," that is, the difference between its sales and its purchases from other industries. This is its contribution to GNP.)

Not all capital outlays are for equipment and structures to be used directly in the production of conventional goods and services. An important element in total capital spending, certainly during the past decade, has been spending for pollution abatement. In this case, the capital goods are used in production of cleaner air and water. In 1980, capital spending for pollution abatement is projected to be almost 4% of total nonfarm, nonresidential capital spending (lower right, page 2). Not surprisingly, the pollution abatement share of spending is highest in the metals, paper, chemical and petroleum industries. Outside manufacturing, it is very small except in the electric utility and mining industries.

The capital spending data on pages 1 and 2 are "gross." This means that they include expenditures to replace facilities that are ending their useful lives as well as for net additions to the capital stock. It is generally easier to estimate total capital spending than to estimate just that portion which is for net additions to the capital stock, but some data on net investment are available. Last year, net investment was only about 27% of gross investment (top chart, this page).

Reflecting the lower ratio of net to gross investment in the 1970's, the growth of the nation's capital stock has slowed from an average 5.6% per year



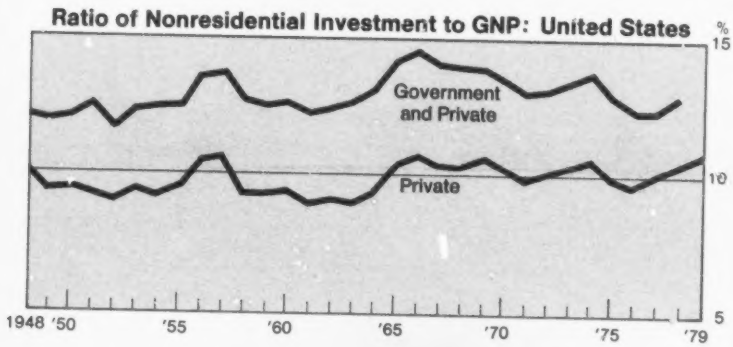


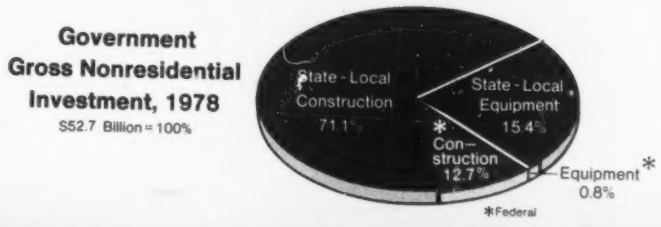
between 1964 and 1969 to an average 3.1% between 1969 and 1978 (lower chart on page 3). These are growth rates of the real net capital stock; this is the value, in constant prices, of the capital stock after deducting the value of that part that has already been used up. Slower growth of the capital stock has translated into outright shrinkage, in recent years, in the capital/labor ratio (chart above).

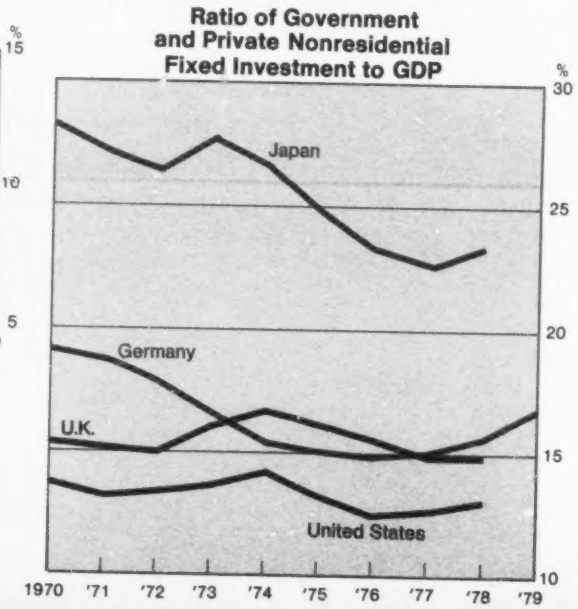
Other countries invest larger shares of their national output than we do. The chart at lower right shows capital investment as a share of national output in Japan (23% in 1978), Germany, (16%), the United Kingdom (15%) and the United States (13%). For this international comparison, it is necessary to include government investment. In the United States, this consists mostly of state and local government construction. Total government spending on fixed capital is under 3% of our GNP, as the chart at lower left shows. It also shows that, smoothing out the business cycle, we have been investing a very stable 10% to 11% of our GNP for many, many years.

Lora S. Collins

Sources: U.S. Department of Commerce, Bureau of Economic Analysis; The Conference Board.







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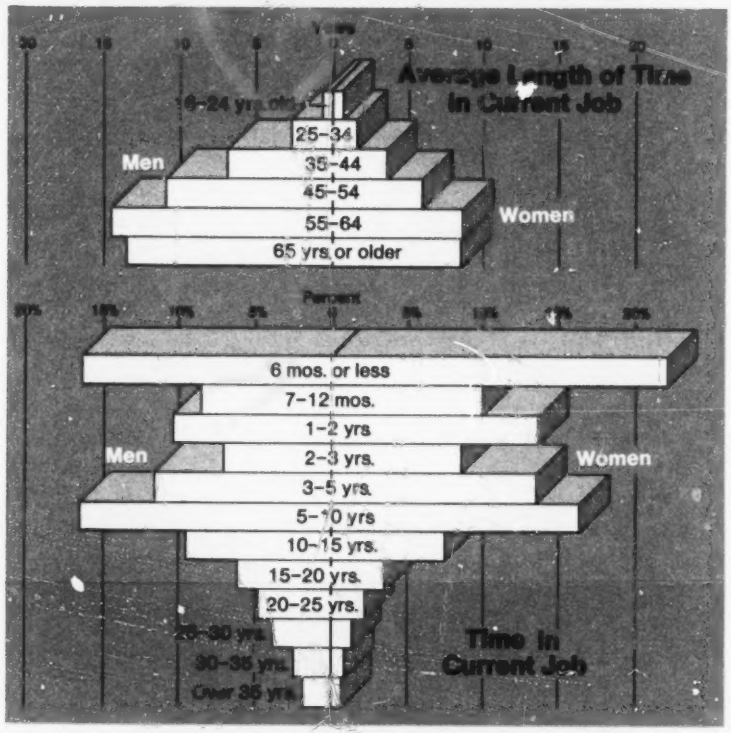
Job Tenure

Economic Road Maps
No. 1888 October, 1980

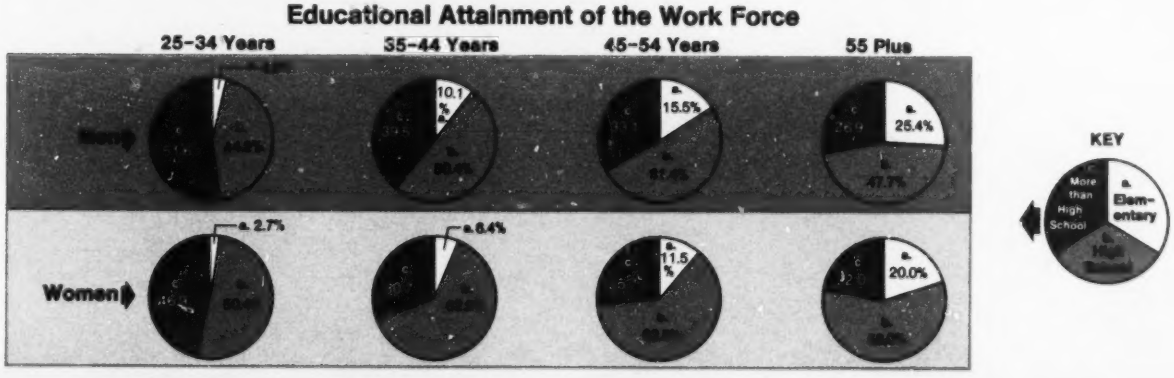
A number of factors determine how long one works in the same job. Not the least is the labor market situation—the strength of demand for labor in a particular field, and the degree of competition in that field. From a worker's point of view, the paramount influences on job tenure are how well he or she performs and what alternative possibilities exist. Obviously, if one does not perform satisfactorily, length of service is likely to be quite short. On the other hand, if one likes the work and is good at it, job tenure is likely to be lengthy—although the availability of alternative opportunities could significantly alter the picture. Still other key factors are age, sex and educational attainment. Changes in the age and sex composition of the work force over the last decade or so have had a significant effect on the job tenure of the work force.



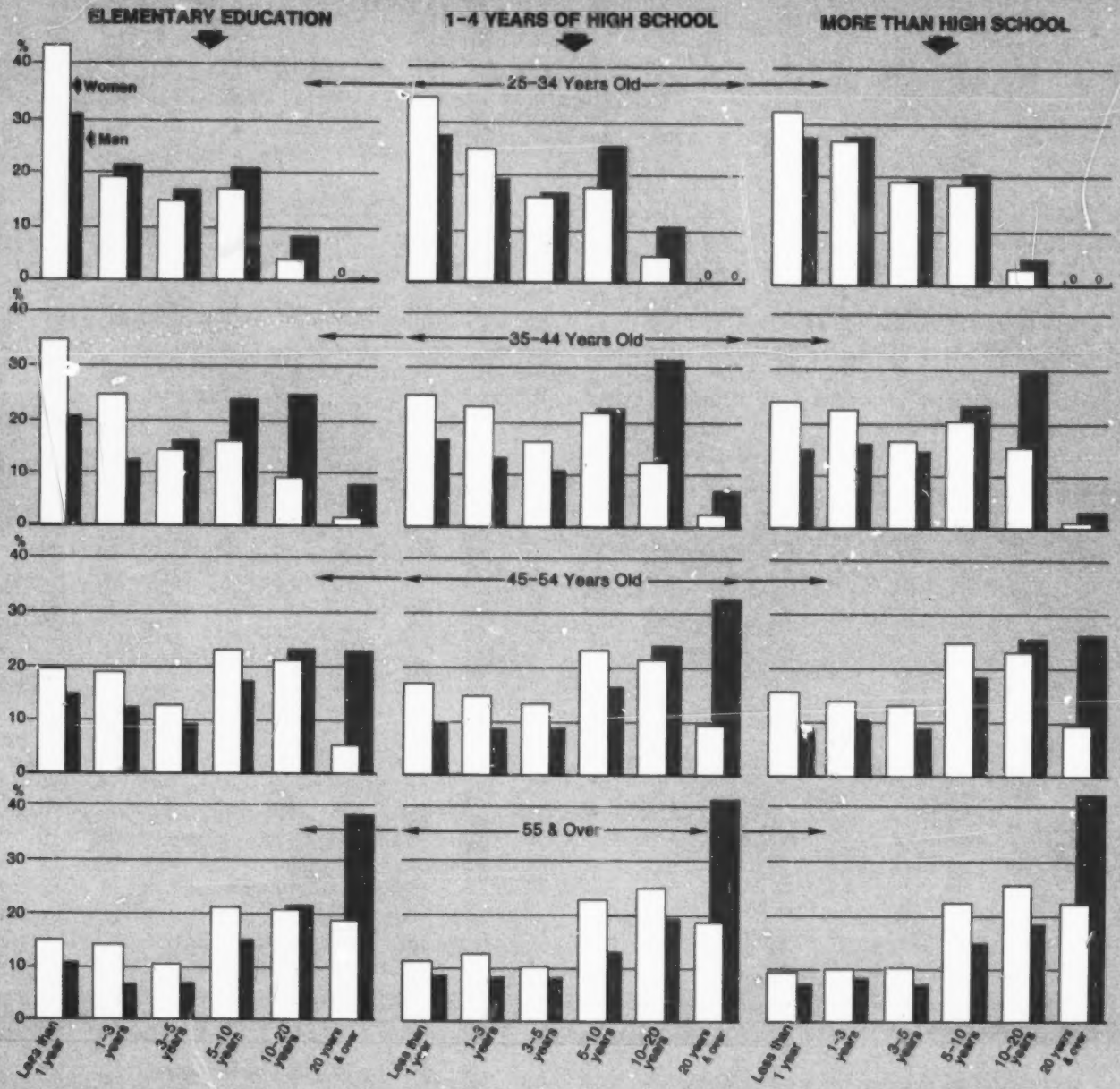
A survey conducted in January, 1978, showed that a little more than one-fourth of all workers were employed in jobs that they had found only within the previous 12 months; about half had been in the same job for between one and ten years; and a little less than one-fourth had been working at the same job for ten years or more. Overall, the average length of time in the same job was 3.6 years for all workers. A similar survey conducted a decade earlier showed a slightly higher (3.8 years) average job tenure.

One of the principal reasons usually given for the decline in average job tenure is also one of the principal factors affecting almost every aspect of the labor market—the influx of women and teenagers into the labor force. Young people change jobs more often than older people. Put another way, young people tend to job hop in search of a better, or higher paying, job. As they acquire skill and experience, some find positions they prefer and therefore are less likely to continue to move from one job to another. Others may

Educational Attainment of the Work Force



Length of Time in Current Job



not wish to remain where they are, but are deterred from switching by a lack of alternatives, family responsibilities, or potential loss of benefits (such as pensions).

Data on job tenure show an obvious difference between men and women. Between the ages of 16 to 24, average job tenure is identical for men and women. But it is significantly higher for men between 25 and 34 than for their female counterparts. And in the 35 to 44 years of age group, tenure is almost twice as high for men as for women. One reason for this difference is that a number of women, age 25 to 44, interrupt their working lives to raise children.

Average job tenure varies directly with educational attainment. Very broadly speaking, workers with more schooling—who can, therefore, be considered more highly skilled—tend to spend more of their working lives in the same job than those with less schooling. Linking age and educational attainment together, one can see a pattern of those with less schooling spending more of their time job hopping, either in search of some more suitable position, or as a result of tending to be employed in seasonal jobs or jobs with frequent layoffs. Ken Goldstein

Source: Bureau of Labor Statistics; The Conference Board.

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Characteristics of Job Seekers

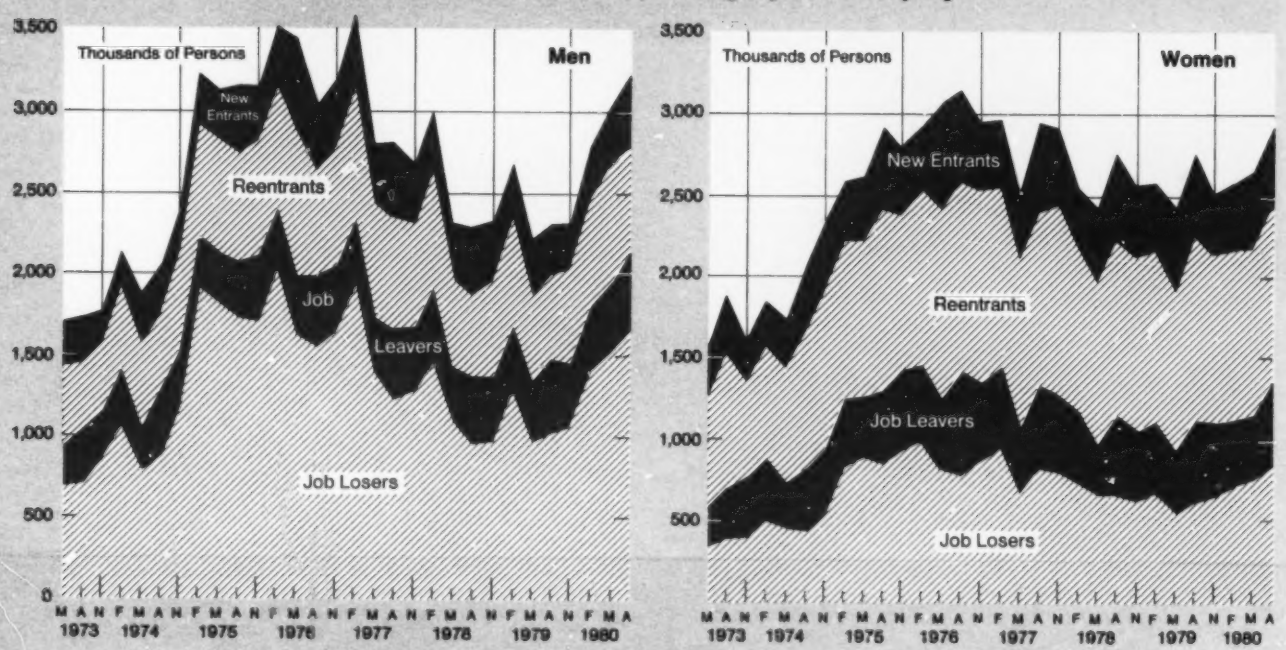
Economic Road Maps

No. 1889

October, 1980

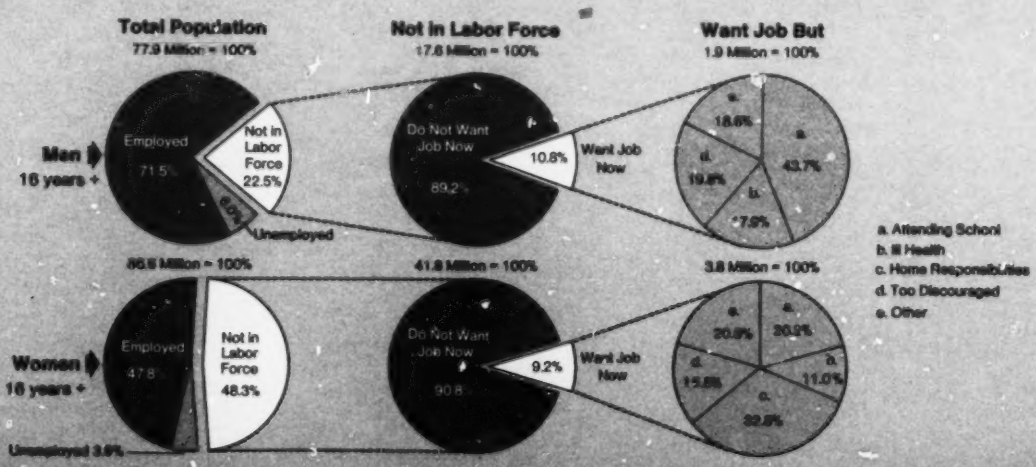
There are currently about 6½ million unemployed adult men and women looking for jobs. In addition, some people who are already working are doubtlessly looking for different jobs, but little information exists about this group. The composition of unemployed job seekers is roughly similar to that of the work force. Job holders are currently about 57% male and 43% female, while job seekers are 54% male and 46% female. The female job seeker is most likely to be reentering the labor force—she is someone who worked at one time, left the labor force, and now wants to return to work. The male job seeker is more likely to be a job loser, either as a result of a layoff or for some other reason.

Unemployed Job Seekers by Category of Unemployment


Thousands of Persons
Men
New Entrants
Reentrants
Job Leavers
Job Losers
Thousands of Persons
Women
New Entrants
Reentrants
Job Leavers
Job Losers
3,500
3,000
2,500
2,000
1,500
1,000
500
0
M A M J S N J M A M J S N J M A M J S N J M A M J S N J M A M J S N J M A M J S N J M A M J S N J M A
1973 1974 1975 1976 1977 1978 1979 1980

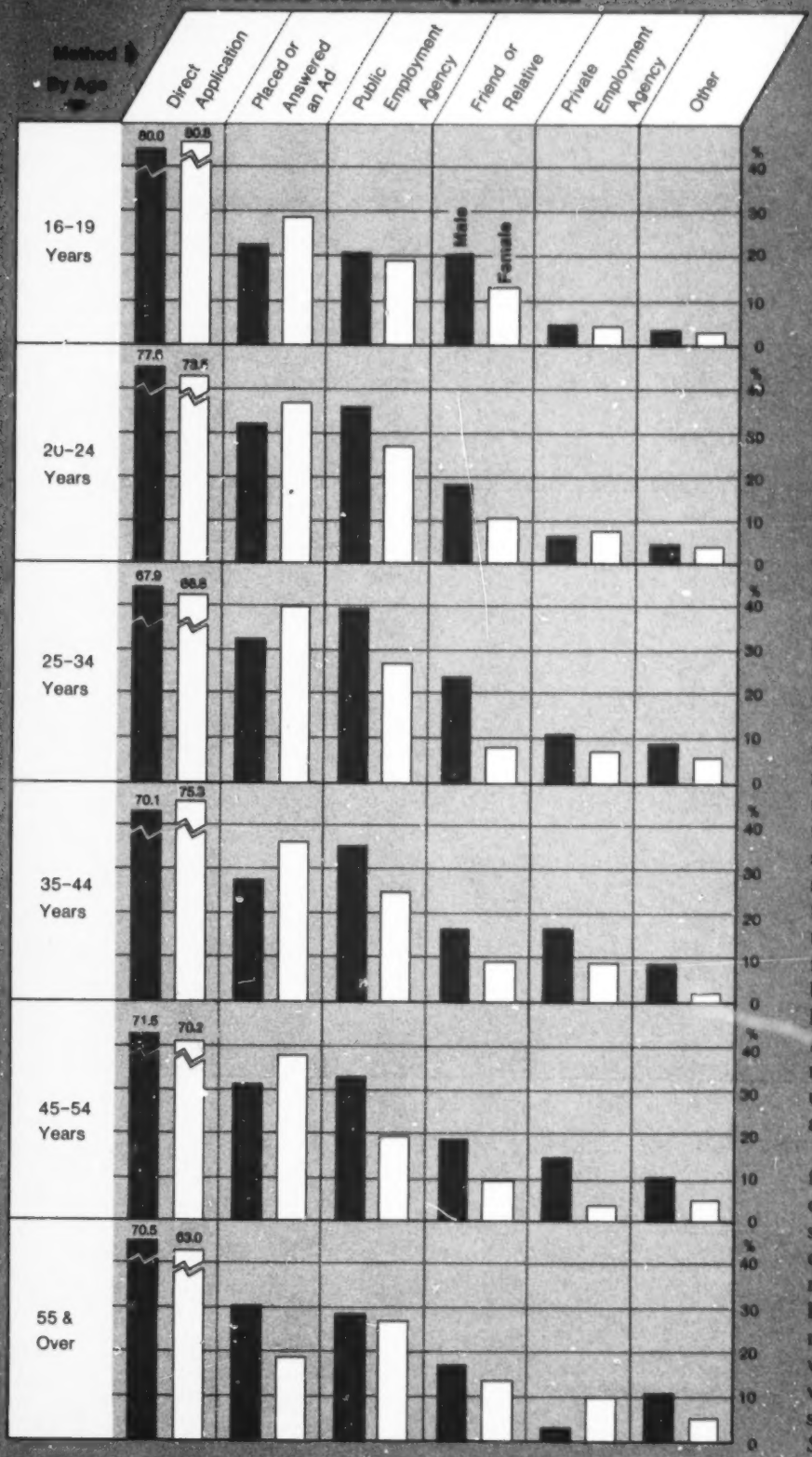
Population by Labor Force Status

3rd Quarter 1980



Methods of Job Search, 1980

Percent of seekers utilizing each method



Surveys of job search methods consistently show that the less structured and more personalized search techniques—answering ads, asking friends and relatives about job possibilities, and direct application—are relied upon to a greater extent than more formal methods such as referral by a public or private employment service, union hall, school placement office, etcetera. The surveys show that applying directly to a potential employer is the method used most frequently by all unemployed job seekers. However, the reported high use of this method may be due in part to consistent underreporting of the extent to which referral by a friend or relative or the answering of a want-ad results in the searcher making a direct application. (The data, based on Bureau of Labor Statistics [BLS] surveys, are dependent on the respondents' concepts of what constitutes a job search method, and their recollection as to which ones were actually used, since no specific methods are mentioned by the BLS interviewer.)

The more formal methods offer a wider scope of job opportunities and may provide more extensive information about them. Adequate information about opportunities is perhaps the single most important aspect of a job search, and the availability of such information may be of special value to those entering or reentering the labor force, as well as to those who have been working in the same job for a long time. Conversely, the less structured job search methods provide a mechanism to help validate, expand upon, and personalize information about job opportunities.

There are few distinguishable differences in methods between younger or older, or male or female, job seekers. One difference that does stand out, however, is that women are a little more likely to use newspaper ads and a little less likely to utilize friends and relatives—a phenomenon related to what some experts call the need for women to develop their own "buddy system."

Ken Goldstein

Source: Bureau of Labor Statistics; The Conference Board.

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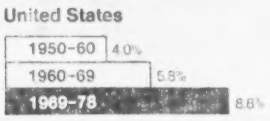
Regional Incomes in the United States

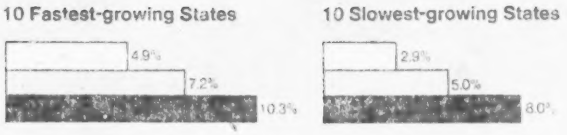
Economic Road Maps

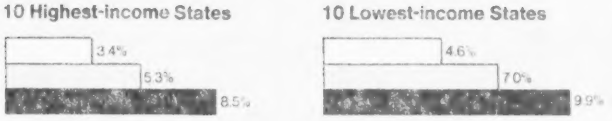
Nos. 1872–1873 February, 1980

The 50 American states are enormously diverse. They vary in size and population, of course, but of greater interest is the diversity in their economic structures and their income levels. Although the states' per capita incomes have been converging over time, great differences remain. In 1940, the average per capita income in the poorest fifth of the states was only 36% of the average in the top fifth; by 1978, the gap had closed to the point where the bottom fifth's average income was 72% of that in the top fifth. The convergence has occurred because per capita income has persistently grown faster in low-income than in high-income states. The low-income states have always tended to be in the southern regions, and this is still true despite years of rapid income growth in those areas.

Average Annual Growth of Per Capita Personal Income

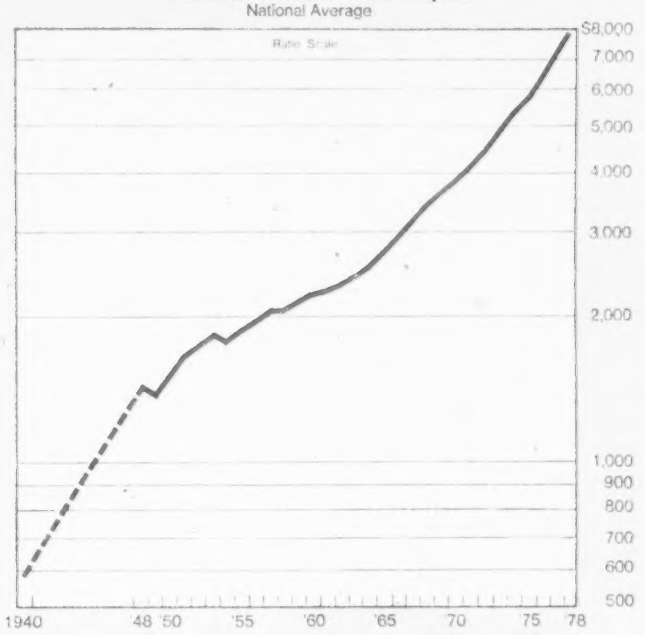


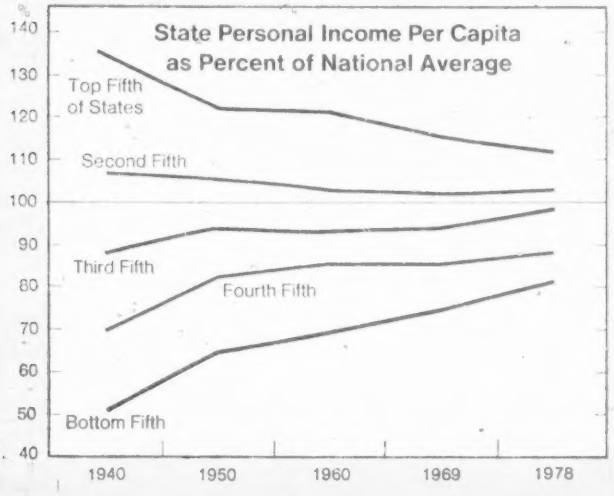


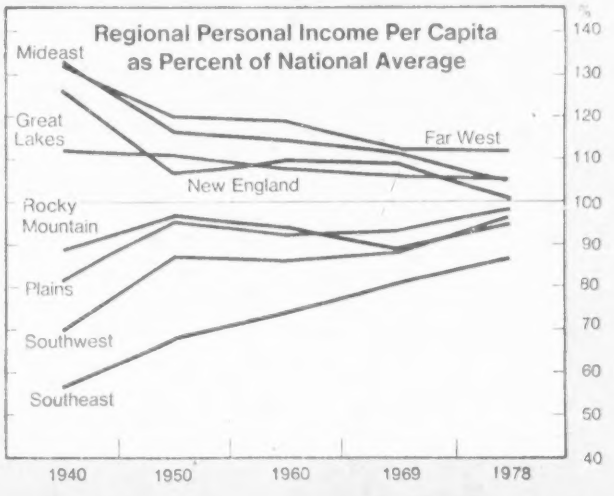


Personal Income Per Capita

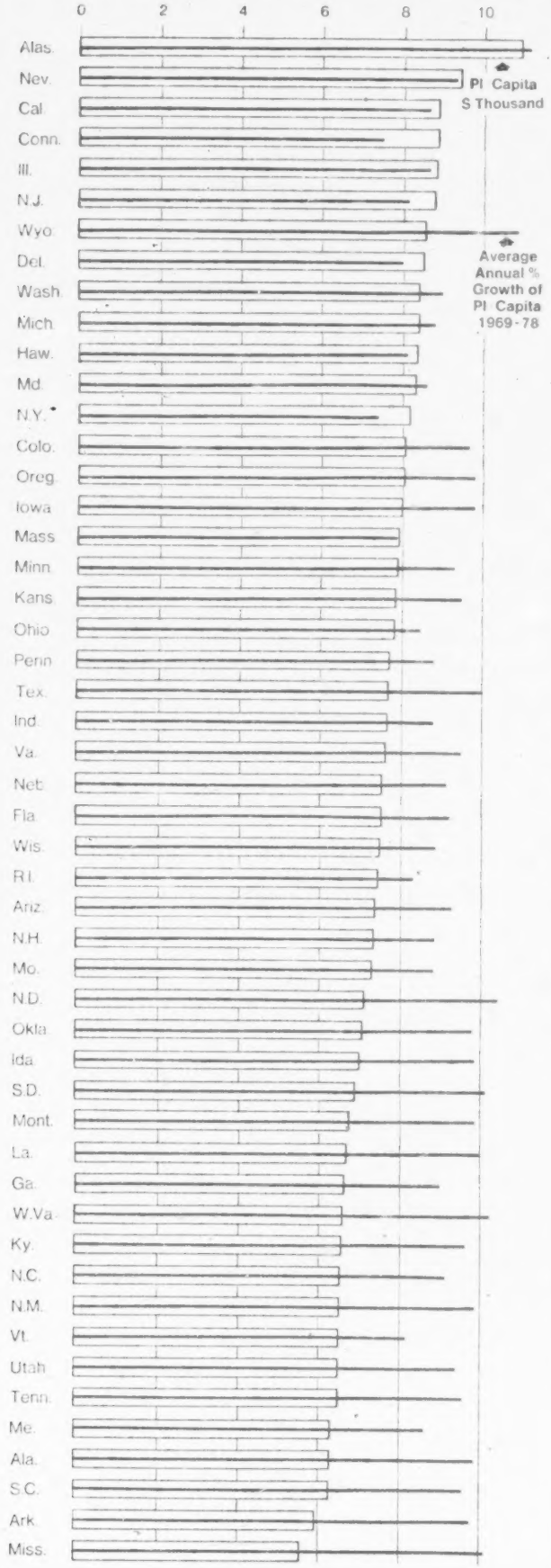
National Average

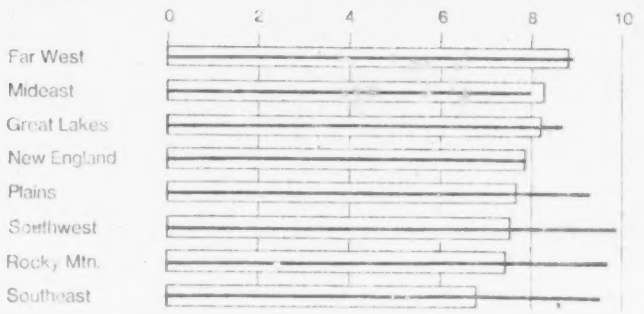






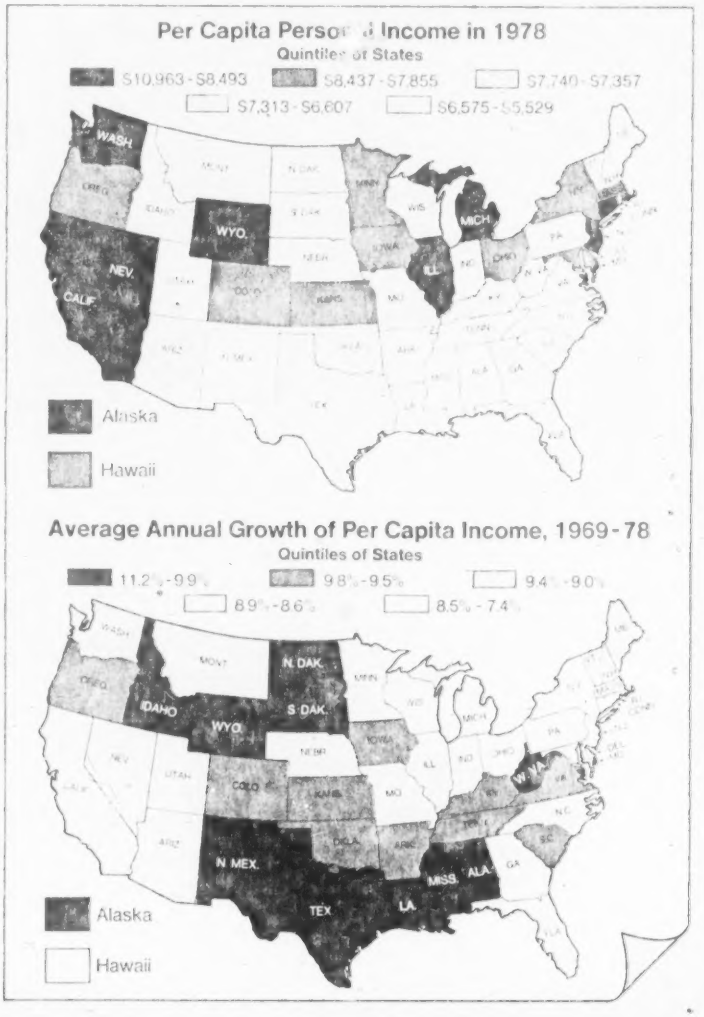
Per Capita Personal Income in 1978 and its Average Annual Growth, 1969 - 78





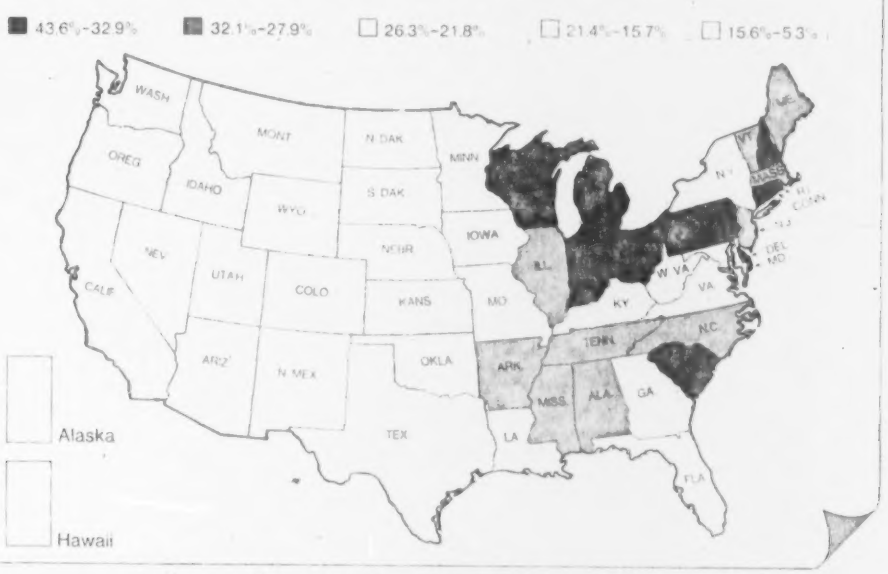
The measure used here is "personal income," which consists mainly of wages, salaries and the income of the self-employed, but also includes dividends, interest and rents (about 14% of total personal income), and transfers such as social security and welfare (about 13 percent).

The convergence of per capita incomes over time is due to many social and economic forces. Some were outlined in a 1978 article by Howard Friedenberg of the Bureau of Economic Analysis, the government agency that produces the data. These include the migration to richer northern states of large, poor, southern farm families; the growing geographic dispersion of industry;

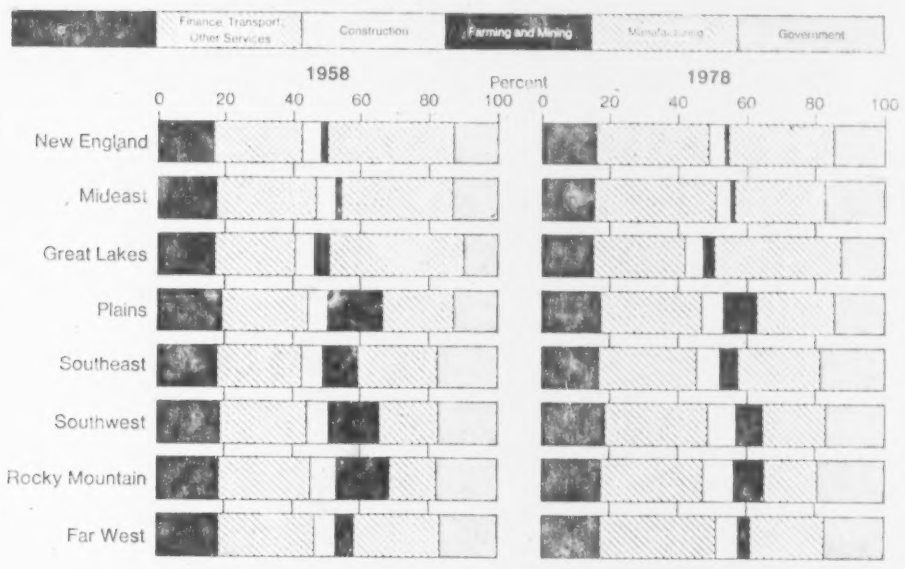


Importance of Manufacturing, 1978

Quintiles of States, by Share of Manufacturing in Labor and Proprietors' Income



Composition of Labor and Proprietors' Income

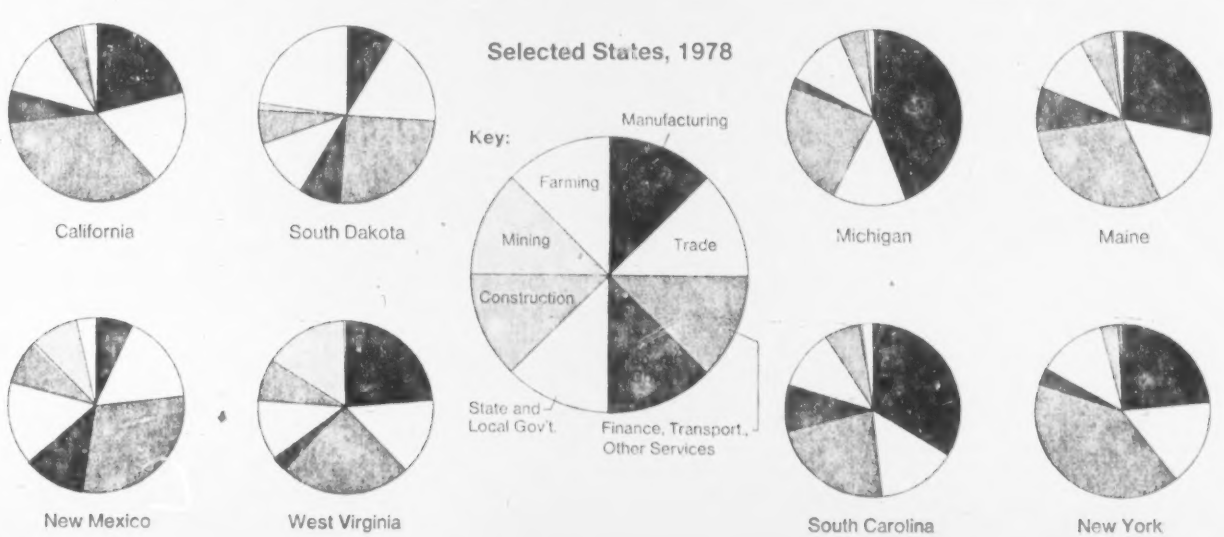


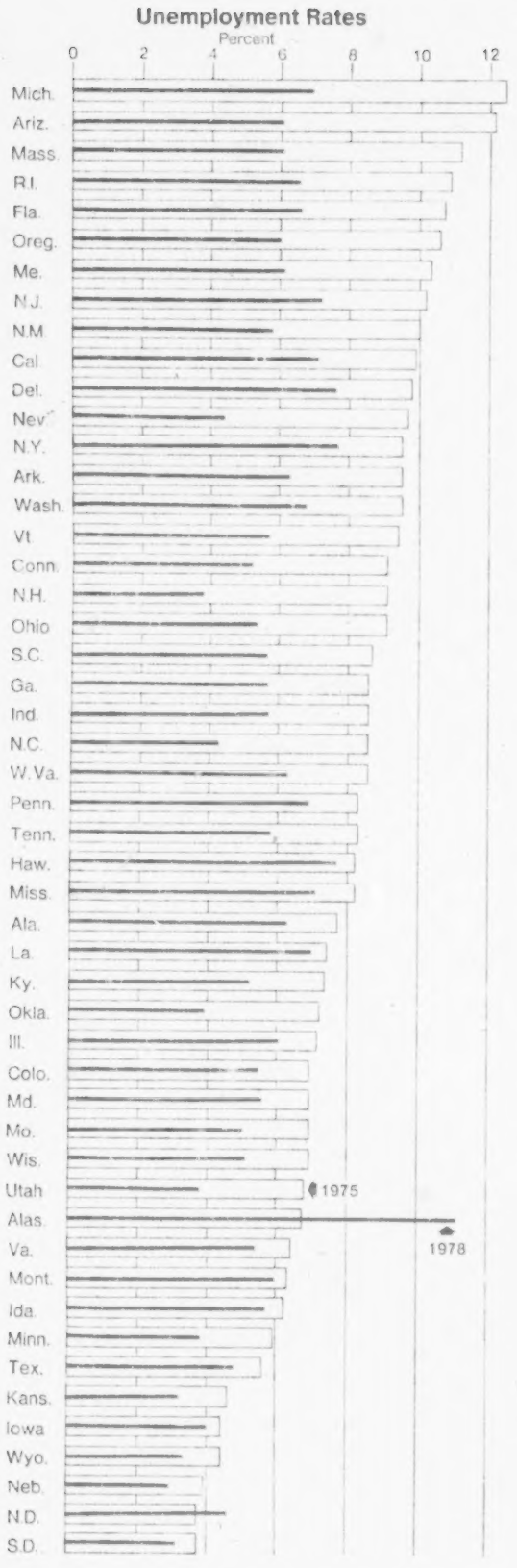
and the relatively greater impact of agricultural mechanization in regions where farming was important. Moverover, the move off the farm in the South and West was generally into jobs less cyclically sensitive than those dominant in the North and East, and this has boosted the Southern and Western long-term growth trend.

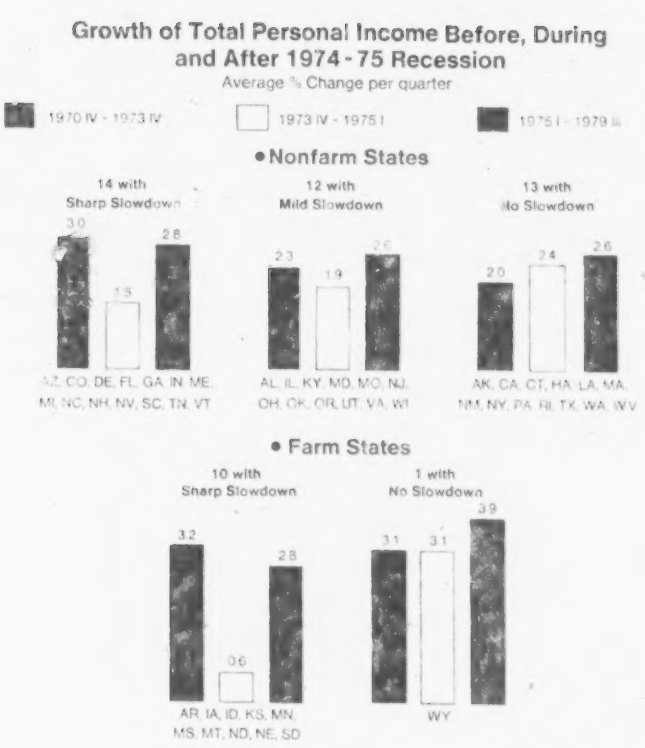
For all that the states' incomes are converging, there has been little change in the top 10. Eight of the top 10 in 1978 had been in the group in 1960. Wyoming and Michigan moved into the group, and New York and Massachusetts moved out. There has been more turnover in the bottom 10: Between 1960 and 1978, Georgia, Kentucky, Louisiana and West Virginia moved out; and Maine, New Mexico, Utah and Vermont dropped down into this group.

Manufacturing has its greatest importance in the industrial arc from the Great Lakes through New England. The major exception in the picture is New York, where manufacturing accounted for only 23% of labor and proprietors' income in 1978, not much different from the national average of 26 percent. New York has an exceptionally heavy concentration of service industry payrolls. Outside the old industrial states, the ones where manufacturing is most important are mostly in the "New South." Farming accounted for only 2% of the nation's total labor and

Selected States, 1978







proprietors' income in 1978, with the share exceeding 5% in only 10 states.

The pie charts show the 1978 earned income distribution in selected states, including the most agricultural (South Dakota) and the ones with the heaviest concentrations in manufacturing (Michigan) and services (New York). The income shares from trade, construction and state-local government do not vary much from state to state but the share from the Federal Government ran from about 20% in Alaska and Hawaii to 2% in Iowa, Michigan and Wisconsin in 1978.

The importance of manufacturing in a state's economy has a large role in determining its vulnerability to the business cycle. However, the general 1973-1975 recession coincided with a farm income slump that followed a previous boom. Thus, the farm states went through a cyclical swing even worse than that in the industrial states. The average rate of increase of U.S. personal income was 2.4% per quarter in the cyclical expansion from 1970 through 1973, 2.0% in the recession to early 1975, and 2.6% from the recession's end through 1979. Fourteen nonfarm states had slowdowns at least twice as sharp as the national 0.4 percent. Another 12 suffered lesser slowdowns, while 13 had no slowdown at all.

Lora S. Collins

Sources: U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics; The Conference Board.

ECONOMIC ROAD MAPS

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Prices for Quantities of this chart will be supplied on request to Information Service.

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